

Best Bank in Sri Lanka 1999. Best Bank in Sri Lanka 2000. Best Bank in Sri Lanka 2001. Bank of the Year 2001. Best Bank in Sri Lanka 2002. Best Bank in Sri Lanka 2003. Bank of the Year 2003. Best Bank in Sri Lanka 2004. Bank of the Year 2004. Best Bank in Sri Lanka 2005. Bank of the Year 2005. Best Bank in



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Enclosed: Form of Proxy

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Dear Shareowner,

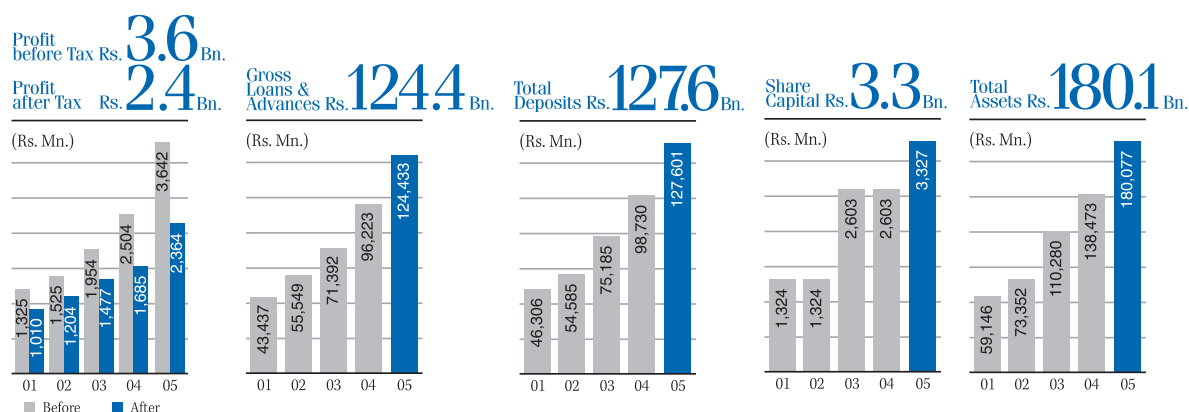
The Bank's performance
last year established itself
even more firmly as the
No. 1 Sri Lankan Bank...

Vision To be THE LEADER in the financial industry in Sri Lanka, having a visible presence in the region by the year 2010.

Mission To deliver optimum value to our customers, employees, shareholders and the nation.

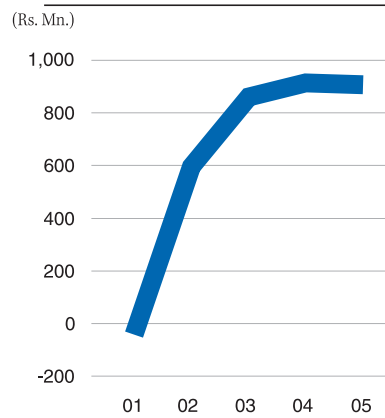
Financial Goals & Achievements

Financial Indicator (%)	Goal	Achievements				
		2005	2004	2003	2002	2001
Return on Average Assets	Over 2	1.48	1.35	1.61	1.82	1.86
Return on Average Shareholders' Funds	Over 20	15.93	13.16	15.20	16.61	17.13
Growth in Income	Over 20	31.00	22.17	20.26	1.96	34.56
Growth in Profit after Taxation	Over 20	40.33	14.03	22.71	19.21	7.91
Growth in Total Assets	Over 20	30.04	25.57	50.34	24.02	19.22
Dividend Rate	Over 40	45.00	60.00	50.00	50.00	45.00
Capital Adequacy Ratios (Group)						
Tier I	Over 10	9.68	10.78	13.43	14.94	15.72
Tier I & II	Over 15	12.08	13.16	15.46	15.07	16.20



	Bank			Group		
	2005 Rs. Mn.	2004 Rs. Mn.	Change %	2005 Rs. Mn.	2004 Rs. Mn.	Change %
Performance during the year						
Income	16,099.645	12,289.645	31.00	16,225.377	12,436.752	30.46
Profit before taxation	3,641.960	2,503.931	45.45	3,668.048	2,594.471	41.38
Provision for taxation	1,277.720	819.217	55.97	1,309.969	867.370	51.03
Profit after taxation	2,364.240	1,684.714	40.33	2,358.079	1,727.101	36.53
Revenue to the Governments	1,917.475	1,273.062	50.62	1,951.393	1,313.475	48.57
Gross Dividends	869.717	650.353	33.73	869.717	650.353	33.73
At the year end						
Shareholders' Funds (Capital and Reserves)	15,768.383	13,911.517	13.35	15,953.573	14,104.509	13.11
Deposits from Customers	127,601.280	98,729.841	29.24	127,490.713	98,621.515	29.27
Gross Loans & Advances to Customers	124,433.419	96,222.585	29.32	124,350.117	96,152.084	29.33
Total Assets	180,077.463	138,473.385	30.04	180,135.051	141,792.485	27.04
Information per Ordinary Share						
Earnings (Basic) (Rs.)	15.02	10.24	46.68	14.96	10.52	42.21
Dividends (Rs.)	4.50	6.00	(25.00)	4.50	6.00	(25.00)
Net Assets Value (Rs.)	97.56	84.49	15.47	98.87	85.85	15.17
Market Value at the year end - voting (Rs.)	135.50	159.75	(15.18)	135.50	159.75	(15.18)
Market Value at the year end - non-voting (Rs.)	57.50	90.00	(36.11)	57.50	90.00	(36.11)
Ratios						
Return on Average Shareholders' Funds (%)	15.93	13.16	21.05	15.69	13.32	17.79
Return on Average Assets (%)	1.48	1.35	9.63	1.46	1.35	8.15
Price Earnings (times) - Ordinary voting shares	9.02	7.65	17.91	9.05	7.44	21.64
Price Earnings (times) - Ordinary non-voting shares	3.83	4.31	(11.14)	3.84	4.19	(8.35)
Year on year growth in Earnings (%)	40.33	14.03	187.46	36.53	17.71	106.27
Year on year growth in Dividends on Ordinary shares (%)	(25.00)	20.00	(225.00)	(25.00)	20.00	(225.00)
Dividend Yield (%) - Ordinary voting shares	3.32	3.76	(11.70)	3.32	3.76	(11.70)
Dividend Yield (%) - Ordinary non-voting shares	7.83	6.67	17.39	7.83	6.67	17.39
Dividend Cover on Ordinary shares (times)	3.34	3.48	(4.02)	3.33	3.58	(6.98)
Dividend Cover on Preference shares (times)	10.26	7.31	40.36	10.24	7.49	(36.72)
Total Dividend Cover (times)	2.72	2.59	5.02	2.71	2.66	1.88
Statutory Ratios						
Liquid Assets (%)	24.51	23.17	5.78	24.51	23.17	5.78
Capital Adequacy Ratios - Group						
Tier I (%)	9.64	10.70	(9.91)	9.68	10.78	(10.20)
Tier I & II (%)	12.03	12.92	(6.89)	12.08	13.16	(8.21)

Economic Value Added
Rs. 3.2 Bn.
over the past 5 years



...once again the Bank met all its targets and came up with yet another stunning performance

Striking the Right Chord

A Superlative Performance

In 2005, we witnessed a country doing its utmost to recover from the debris left over by the tsunami catastrophe. For its part, your Bank weathered all storms to come out with yet another scintillating performance in 2005.

While further consolidating its financial prowess, the Bank retained the AA+ (sri) national rating, by Fitch Ratings Lanka Ltd. (FRL), for its implied long-term unsecured senior debt. This is the highest rating given by FRL to any indigenous private bank to date.

Commercial Bank, its subsidiaries and associate companies recorded a pre-tax profit (before the Financial Value Added Tax on profit) of Rs. 4.293 billion for 2005. This is a growth of Rs. 1,255.906 million or 41.36% over the previous year.

The Financial Value Added Tax calculated on the basis of 15% of the staff emoluments and the pre-tax profit (after charging it) amounted to Rs. 624.605 million. After providing for this Financial Value Added Tax, the profit before corporate tax amounted to Rs. 3.668 billion, a growth of Rs. 1,073.577 million or 41.38%.

A 2.33% appreciation of the Rupee against the US Dollar from Rs. 104.45 as at December 31, 2004 to Rs. 102.02 as at December 31, 2005, limited the exchange profit to Rs. 586.915 million compared to Rs. 873.561 million recorded in the previous year.

Commission and other income recorded a growth of Rs. 382.596 million to reach Rs. 1,759.619 million, up by 27.78% compared to the previous year. Total operating expenses including the loan losses and provisions increased from the previous year's Rs. 4.879 billion to Rs. 5.199 billion in 2005 recording an increase of 6.56%.

Provision for corporate tax for 2005 of Rs. 1,309.969 million resulted in a post-tax profit of Rs. 2.358 billion, a growth of Rs. 630.978 million or 36.53%.

Total deposits rose from Rs. 98.622 billion as at December 31, 2004 to Rs. 127.491 billion as at December 31, 2005, which represented a growth of Rs. 28.869 billion or 29.27%. Net loans, advances and leases rose from Rs. 90.650 billion as at December 31, 2004 to Rs. 118.679 billion as at December 31, 2005, a growth of Rs. 28.029 billion or 30.92%.



AA + (sri)

Highest Credit Rating among local commercial banks

The Group's total assets grew from Rs. 141.792 billion at end 2004 to Rs. 180.135 billion at end 2005, representing a growth of Rs. 38.343 billion or 27.04%.

Value for Investment

Your Bank announced a generous bonus share issue in the ratio of 1 : 1 for each of its ordinary voting and non-voting shares held as at May 30, 2005.

The Bank paid an interim dividend of 15% in November 2005. A final dividend of 30% has been recommended by the Directors for your approval, thus bringing the total dividends for 2005 to 45% on the enhanced share capital, which was doubled as a result of the scrip issue.

Awards

In 2005, Commercial Bank was selected as the 'Best Bank in the Country' for the seventh consecutive year by the prestigious US based 'Global Finance' Magazine.

The Bank was also selected as the 'Bank of the Year 2005' in Sri Lanka by the UK based 'The Banker' Magazine, the fifth successive year for which Commercial Bank received this honour. Achievements of Commercial Bank considered for bestowing the honour

were growth and performance indicators such as Tier I capital, assets, net profit, return on equity, cost/income ratio, non-performing assets ratio, initiatives undertaken to create shareholder value and improve shareholder return including dividends paid, corporate governance practices, economic value addition and IT related initiatives such as the acquisition of state-of-the-art banking and ATM related software.

At the National Business Excellence Awards - 2005 organised by the National Chamber of Commerce of Sri Lanka (NCCSL), Commercial Bank emerged as the winner in the category of Excellence in Business and Financial Sustainability and also in the banking sector while the Bank came second runner-up in the Extra Large category. These achievements are a reflection of the efforts of the Management and the staff to strive for excellence in every field of operation.

Capital Infusion

In 2004, the Bank successfully mobilised Rs. 1.000 billion through an issue of debentures. Further consolidating on this success, in 2005, your Bank mobilised Rs. 1.309 billion through an issue of 2005/2010 Unsecured Subordinated Redeemable Debentures by way of a private placement.

FRL has assigned 'AA (sri)' national rating for this issue as in the case of the debenture issue in 2004. The Bank is planning to list these debentures on the Colombo Stock Exchange in the future through an introduction. The funds raised will supplement deposit mobilisation and help the expansion of the medium term loan book of the Bank. The issue also qualifies as Tier II capital, thereby strengthening the Bank's Regulatory Capital.

The Economy Rebounds after the Tsunami

The post-tsunami Sri Lankan economy has shown resilience and is estimated to have recorded a GDP growth in excess of 5% in 2005. Particularly, the industry and services sectors performed well. Although the agriculture sector recovered with a strong improvement in paddy production as well as an increase in the production of plantation and subsidiary food crops, the overall agriculture-forestry-fishing sector activities were subdued mainly due to the poor performance of the fishing industry.

Net private remittances recorded a strong growth bolstered by tsunami related inflows. The share market too recorded appreciable gains although slackening to some extent in the aftermath of the Presidential Election in November 2005.

Export earnings (in US Dollar terms) are estimated to have grown by 10.2%, reflecting a continuous improvement in all major export categories. Weekly auction prices of tea also recorded increases throughout 2005.

Expenditure on imports is estimated to have grown by 10.8% largely due to increased expenditure on petroleum imports, which grew by an estimated 37%, mainly as a result of higher oil prices. Earnings from tourism declined in 2005. Therefore, urgent measures will have to be taken to revitalise tourism in view of its significant contribution to the country's foreign exchange earnings. The overall Balance of Payments recorded a surplus of US Dollar 501 million in 2005, helped by tsunami related financial inflows and debt relief to the Government. Accordingly, the country's Gross Official Reserves too recorded an increase despite the higher cost of oil imports. An increase in investment goods imported recorded during 2005 may translate into an expansion of the economy's capacity to manufacture.

Export Led Growth: the Way Forward

The country has got a new leader and a new vision for economic development. A national economic policy based on integrating the positive attributes of a free

market economy with domestic aspirations in order to ensure a modern and balanced approach to development has been envisaged. This approach stipulates that domestic enterprises will be supported including provision of capital, technology and knowledge required by local entrepreneurs to penetrate international markets while encouraging Foreign Direct Investments.

While appreciating these objectives, I would like to further emphasise that given the constraints of a small economy, it is extremely important to actively encourage foreign investments while integrating the economy of the country with the global trading environment, if Sri Lanka is to achieve the development and growth targets envisaged. Sri Lanka would need to pay much more attention to maintenance of political and policy stability in order to attract foreign investors, who seek good policies and a stable political and economic environment before investing.

On the positive side, due to the unique Free Trade Agreements that Sri Lanka has entered into with India and Pakistan, the country has become the most effective and competitive hub to reach these giant markets of South Asia. India is the fourth largest investor in Sri Lanka and also accounts for the largest inflow of tourists.

In order to derive the maximum benefits from these strategies, it is imperative to maintain a conducive macro economic environment. High inflation, in the region of 12% a year during the post-1977 liberalisation period in Sri Lanka, led to high costs of production which reduced the profitability of entrepreneurs. While discouraging investment and production, inflation has also discouraged savings, through a decline in real interest rates.

A major contributory factor for high inflation in post-1977 Sri Lanka has been 'too much money chasing too few goods'. On average, money supply had risen by 18% annually, against an annual growth of 5% in GDP. This monetary expansion is mainly attributed to increased bank lending to the Government to finance its unhealthy budget deficits, which averaged 9% of GDP since 1990. The excessive expansion of the money stock, increased the demand for goods and services and thereby induced inflation. Therefore, it is imperative that the Government curtails its budget deficit. The Government will have to maintain an appropriate trade-off between its welfare measures and development plans, while taking steps to enhance Government revenue, mainly by broadening the tax base.

On the external front, high inflation, through rising production costs has also weakened Sri Lanka's export competitiveness considerably, by making the country's exports more expensive relative to those of the competing countries. Depreciation of the rupee per se will not guarantee export growth. Rather, a sound macro economic environment, coupled with policies oriented towards enhancing business confidence and the maintenance of a realistic exchange rate reflecting the true demand and supply conditions in the foreign exchange market, would place the country's exports on a better footing.

A rapid increase in imports resulting from greater openness during the post-1977 period, outpaced export growth. As a result, the Current Account of the Balance of Payments has been in deficit throughout the entire period, averaging 6% of GDP for a year. Although large flows of inward remittances, received mainly from Sri Lankans working in the Middle East countries have eased the situation, the foreign exchange shortage remains a major impediment to the country's growth. Therefore, promoting Sri Lanka's exports is vital in order to generate valuable foreign exchange and arrest the country's persistent Current Account deficits.

In addition to keeping inflation in check, reducing our presently exorbitant electricity costs through the installation of coal power plants will make our industrial exports more competitive in the international market.

Economy: Prospects and Challenges for 2006

Although the world economic growth rate has been estimated at 4.3% for 2005 and forecast at the same level for 2006, downside risks to this forecast can be identified as excessive dependence of global demand on US consumption, elevated levels of asset prices: especially housing and high and volatile price of oil. A future supply shock could drive oil prices even higher, with adverse consequences on the global output.

In Sri Lanka, a gradual dissipation of the adverse impact of the tsunami disaster on some sub-sectors of the economy can be seen. Furthermore, since the next drought cycle is not expected to emerge until 2008, both agricultural production and hydropower generation are expected to expand further. Tsunami related reconstruction could also boost aggregate demand and output. Accordingly, economic performance is expected to be better in 2006.

However, weighing in the balance are concerns about sustainability of public debt, too many elections with accompanying bouts of welfare measures that have impeded fiscal consolidation and the absence of an enduring solution to the civil conflict.

The price levels of oil would be a key determinant of the rate of inflation. Besides, if the Government lets its welfare oriented expenditure go unchecked it could lead to an unmanageable increase in the budget deficit, leading to higher inflation and higher rates of interest.

More positively, given the Government's strong emphasis on agriculture and SME development, a revival in these sectors could be anticipated in 2006. The apparel exports are expected to benefit in the period ahead from concessions granted under the European Union's GSP+ scheme. Additionally, tax and other incentives aiming at provincial industrialisation, included in the Government Budget for 2006, if implemented effectively, may help to reduce the severe regional imbalances in terms of contribution to the economy.

Looking Ahead

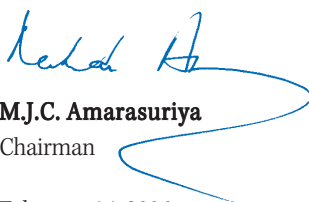
Commercial Bank is looking ahead to the future with confidence. The Bank intends to expand its operations in Bangladesh, both in terms of accessibility and range of products while continuing to expand its presence within Sri Lanka. Your Bank would also constantly probe new business opportunities.

The increase in the applicable Corporate Tax rate to 35% from the hitherto 30% , the hike in the Financial Value Added Tax rate to 20% from the hitherto 15% and the Social Responsibility Levy rising from the hitherto 0.25% to 1% as per the Government Budget for 2006, will place additional burdens on the profitability of your Bank. Furthermore, the requirement that banking institutions should direct at least 10% of their total lending to the agricultural sector as per the same budget, will require your Bank to come up with new lending strategies.

Gratitude

An energetic and enthusiastic staff, ably led by the Managing Director of your Bank who received unstinted co-operation from his effective and efficient management team, provided the vigour and vitality for your Bank to come up with a superlative performance in 2005 too. I wish to express my gratitude to my colleagues on the Board for their valuable contributions and warmly welcome Mr. Dinesh Weerakkody who joined the Board during the year.

While sharing the joy of Commercial Bank's manifold successes with all its stakeholders, I wish to reassure them that with their support, the Bank would continue to strike the right chord in the years ahead too.



M.J.C. Amarasuriya

Chairman

February 14, 2006
Colombo

Board of Directors



Left to Right: Dinesh Weerakkody, Dr. H.S. Wanasinghe, A.N. Fonseka, M.J.C. Amarasuriya (*Chairman*), Lalin J.A. Fernando



Iyad M. Malas, J.S. Mather (*Deputy Chairman*), Sanjiva Senanayake, A. L. Gooneratne (*Managing Director*), Mrs. R.R. Dunuwille (*Company Secretary*), B.R.L. Fernando

Board of Directors

M.J.C. Amarasuriya - *Chairman*

First appointed to the Board on May 15, 1986 and appointed Chairman on January 1, 1995
No. of shares held: 309,864 (Voting) and 104,932 (Non-Voting)

Chairman of:
United Motors Lanka Ltd.
Commercial Fund Management (Pvt) Ltd.
Equity Investments Lanka Ltd.
Pelwatte Sugar Industries Ltd.
Serendib Flour Mills (Pvt) Ltd.

Director of:
Commercial Leasing Co. Ltd.

Past Chairman of:
Joint Business Forum of Chambers of Commerce & Industry, Employers' Organizations & Trade Associations of Sri Lanka (JBIZ)
The Employers' Federation of Ceylon
International Chamber of Commerce, Sri Lanka
Regional Industry Service Committee of the North-Western Province
Former Deputy Chairman of Hayleys Ltd.

J.S. Mather - *Deputy Chairman*

First appointed to the Board on September 1, 1989.
No. of shares held: Nil

Fellow of The Institute of Chartered Accountants, England & Wales,

Partner of Ernst & Young from 1966 to 2001

Non-Executive Director of:
Chemical Industries Colombo Ltd.
Acme Printing and Packaging Ltd.
Lanka Aluminium Industries Ltd.
David Peiris Motor Company Ltd.
Delmege Forsyth & Co. Ltd.
and a few other unlisted companies

Member of:
Audit Committee of the Central Bank
The Board of Directors of the Institute for the Development of Commercial Law & Practice Arbitration Centre
The Board of South Asia Foundation - Sri Lanka Chapter
Public Utilities Commission

A. L. Gooneratne - *Managing Director*

First appointed to the Board as the Managing Director on January 6, 1997

Joined the Bank in March 1983 and held several senior positions prior to his appointment as the General Manager/Chief Executive in March 1996

No. of shares held: 390,158 (Voting) and 17,324 (Non-Voting)

Fellow of The Institute of Chartered Accountants, England & Wales

Former Chairman of the Sri Lanka Banks' Association (Guarantee) Ltd.

Director of the Financial Ombudsman Sri Lanka (Guarantee) Ltd.

Council Member of the Employers' Federation of Ceylon
Represents the Bank's interests on the Boards of all its Associate and Subsidiary Companies

Dr. H.S. Wanasinghe - *Director*

First appointed to the Board on January 5, 1990
No. of shares held: Nil

Senior Visiting Fellow of the Institute of Policy Studies
Member of Council of Fellows of the Marga Institute

Member of the Board of Directors of the Centre for Policy Alternatives

Served the United Nations Economic and Social Commission for Asia and the Pacific for 15 years and on return to Sri Lanka in 1986 served as the Chairman of the

Presidential Committee on Administrative Reforms, the Presidential Taxation Commission and the Public Investment Management Board. Before joining the United Nations, served as a Member of the Ceylon Civil Service for 24 years.

B.R.L. Fernando - *Director*

First appointed to the Board on January 1, 1995
No. of shares held: 4,778 (Non-Voting)

Fellow of The Institute of Chartered Accountants of Sri Lanka

Executive Chairman:
Chemical Industries (Colombo) Ltd.
CIC Fertilizers (Pvt) Ltd.
CIC Seeds (Pvt) Ltd.
CIC Feeds (Pvt) Ltd.
CIC Vetcare (Pvt) Ltd.
CIC Agri-biotech (Pvt) Ltd.
CIC Poultry Farms Ltd.
CIC Bio Security Breeder Farms Ltd.

Non-Executive Chairman:
Chemanex Ltd.
CIC Paints (Pvt) Ltd.
CISCO Speciality Packaging (Pvt) Ltd.
Crop Management Services (Pvt) Ltd.

Non-Executive Director of:
Paints & General Industries Ltd.
Agro Enterprises Japan-Lanka (Pvt) Ltd.
Rainwear (Pvt) Ltd.

Trustee of the Employers' Federation of Ceylon

Possesses extensive experience in finance and commerce

A.N. Fonseka - *Director*

First appointed to the Board on January 31, 2000
No. of shares held: 622 (Non-Voting)

Director of:
DFCC Bank (General Manager/Chief Executive)
Colombo Stock Exchange
Credit Information Bureau of Sri Lanka

Member Governing Board of:
National Institute of Business Management
Post Graduate Institute of Management,
University of Sri Jayawardenapura

Member of the Financial Sector, Capital Markets and Taxation Clusters of the National Council for Economic Development (NCED)

Director of Association of Development Financing Institutions in Asia and the Pacific (ADFIAP)

Chairman of the Exchange Control and Banking & Finance
Sub-Committees of the Ceylon Chamber of Commerce

Lalin J.A. Fernando - *Director*

First appointed to the Board on April 25, 2003

No. of shares held: Nil

Founder & Managing Director of Standard Trading Company (Pvt) Ltd.

Director of:
L F Holdings (Pvt) Ltd.
Horana Plantations Ltd.
Uni Dil Packaging (Pvt) Ltd.
Ceytea Plantations Management Ltd.
STC Logistics (Pvt) Ltd.
L F Teas (Pvt) Ltd.
STC Trading House (Pvt) Ltd.
Classic International (Pvt) Ltd.
Research International (Pvt) Ltd.
Motor Marvels (Pvt) Ltd.
Frontier Automotive (Pvt) Ltd.
Koboshu Corporation (Pvt) Ltd.

Counts over 34 years experience in the Tea Trade and Private Sector Management.

Dinesh Weerakkody - *Director*

First appointed to the Board on July 29, 2005

No. of shares held: Nil

Graduate in Business Administration

Holder of a Masters Degree in Business Administration (MBA) from the University of Leicester, England

Associate of the Chartered Institute of Management Accountants, UK

Managing Director of Cornucopia Sri Lanka

Director of:
DFCC Bank
GlaxoSmithkline Beecham Sri Lanka

Former Chairman/CEO of Employees' Trust Fund Board - Sri Lanka

Advisor to the Prime Minister of Sri Lanka (January 2003-April 2004)

Human Resource Director of GlaxoSmithkline - Sri Lanka (January 1998-November 2005)

Council Member of the Chartered Institute of Management Accountants (CIMA) Sri Lanka Division

Has received extensive training in Human Resource Management in Singapore, London, Japan, India and in the USA

Iyad M. Malas - *Director*

First appointed to the Board on November 23, 2004

No. of shares held: Nil

Holds an MBA from George Washington University and is a Chartered Financial Analyst

Has been with the World Bank Group since 1987 and was previously a Manager in the IFC's Central Asia, Middle East and North Africa Department

As Head of the investment bank Fleming CIIC in Cairo, was responsible for the creation of the largest investment bank in the MENA Region

Instrumental in developing the Emerging Markets Data Base into a fully fledged commercial product

Extensive experience working in: Latin America, Asia, South Europe & the Middle East

Possesses extensive experience in the private sector and IFC including strong industry knowledge in General Manufacturing, Information Technology and Financial Markets

Sanjiva Senanayake - *Alternate Director to Mr. Iyad Malas*

First appointed to the Board on July 27, 2004

No. of shares held: Nil

Holds: First Class BSc. degree in Electronic and Electrical Engineering from King's College, University of London

Masters Degree in Communication Engineering from Imperial College of Science and Technology, University of London

IFC's Resident Representative for Sri Lanka and Maldives since 1998.

Banking Career:

Started in 1979 with Citibank, and worked in Sri Lanka, Brunei and Australia.

Prior to the IFC appointment, worked as the AGM Treasury at NDB and Consultant (Treasury and Business Development), at Commercial Bank.

Possesses extensive experience in Treasury and Risk Management.

Mrs. R.R. Dunuville - *(Company Secretary)*

Attorney-at-Law
Chartered Secretary (UK)

**Bank's Deposits grew
by 29.24%**

to reach Rs. 127,601.280 million

**Bank's Advances grew
by 29.32%**

to reach Rs. 124,433.419 million

The growth rates of both
deposits and advances of the Bank are believed to be
**higher than the
industry averages**

**Bank's Total Assets grew
by 30.04%**

to reach Rs. 180,077.463 million

**Bank's ROA improved
to 1.48%**

2004 - 1.35%

Bonus issue of shares on the basis of 1:1

Group's pre-Financial VAT and pre-tax profit

Rs. 4.293 billion

2004 - Rs. 3.037 billion

Group's pre-tax profit

Rs. 3.668 billion

2004 - Rs. 2.594 billion

Group's post-tax profit

Rs. 2.358 billion

2004 - Rs. 1.727 billion

Non-Performing Assets Ratio (NPA)

4.07%

2004 - 5.34%

Provision Cover

53.85%

2004 - 50.00%

Group's Capital Adequacy Ratios Tier I and Tier I & II

9.68% & 12.08%

2004 - 10.78% & 13.16%

A year of Recovery and Reward

From Uncertainty to Stability

The year commenced under a cloud of uncertainty. The tsunami had wrecked coastlines and livelihoods. It had also jolted mindsets and attitudes and dropped more than a seed of ambiguity in the minds of the business sector.

Yet from this uncertainty and trepidation the country rebounded and the Bank was proud to be part of this revival. While walking that extra mile to alleviate the trauma and suffering of those affected, we ensured that the Bank met its targets and even exceeded them in many cases. We ended 2005 secure with the thought that we had produced yet another stellar year and delivered with equal aplomb to all our stakeholders: shareholders, customers, employees and their families, the larger society and the nation.

Bank Expansion

We continued with our Bank expansion programme and established 9 new delivery points during the year, bringing the total number of delivery points to 134. This included new branches in some of the areas affected by the tsunami such as Tangalle and Tissamaharama. Two branches

scheduled to be opened in the Jaffna District were not opened because of the escalating levels of violence in that part of the country towards the end of the year.

Thirty two new ATMs were installed and we ended 2005 with an ATM network of 219 machines spread across the island. This is the single largest ATM network of the country. These ATMs are being constantly upgraded to make them progressively user friendly.

Further, the Bank obtained a Primary Dealer licence from the Central Bank of Sri Lanka and brought the operations of the Commercial Bank Primary Dealer Ltd. back to the Bank with effect from October 1, 2005. Consequently, the Commercial Bank Primary Dealer Ltd. is under voluntary liquidation.

Technology

The Bank continued to invest in new technology. In previous years, technology had given us the edge over other banks and we will continue to invest in new technology in order that we continue to stay ahead.



Rs. 18.5 Billion

Highest Market Capitalisation among banks

Last year we invested Rs. 302.613 million in IT. Two new cutting edge products were rolled out. In partnership with Dialog, we enabled the customers to top up their pre-paid mobile phones by way of an SMS to the Bank. The SMS debits the customer's Bank account and tops up his/her pre-paid mobile phone account. Intermediary transactions are eliminated, transaction costs are reduced and a win-win scenario is created for the service provider, the customer and the Bank. This year we will clinch deals with other operators as well and offer the product to a broader group of customers. This new product has added an entirely new dimension to the concept of "pre-paid" telephone cards.

A similar facility has now been extended to customers who have obtained "Pahan" personal loans enabling those eligible to get their loans immediately topped up merely by sending an SMS to the Bank.

The Rupee Strengthens

The biggest challenge the Bank had to face in 2005 was the strengthening of the Sri Lankan Rupee. At the end of 2004, the rupee traded at Rs. 104.45 to a US Dollar. The influx of tsunami

funds changed this position dramatically and by early February 2005, the Rupee had strengthened to 99.05.

The Bank maintains substantial assets denominated in US Dollars and this upward movement of the Rupee stretched our ingenuity. The Rupee has now stabilized and had reached Rs. 102.02 by the end of December 2005.

Rising from the destruction of the Tsunami

The tsunami forced us to reschedule loans given to customers whose businesses had been affected. This again was unanticipated and initially affected our projections for the year. Yet by the second half of the year things began to fall into place and we began to exceed many of the targets set for the year.

We attracted a large number of new customers throughout the year. Many of the organisations that entered the country to dispense humanitarian relief entrusted their business to us. The Bank was able to leverage the reputation it has built up over the years to attract these clients, many of whom were looking for a bank with a wide reach and the supporting technological capabilities.

Soon after the tsunami, the Central Bank launched the "Susahana" loan scheme for those whose businesses were affected by the tsunami. Your Bank was one of the most aggressive players in the delivery of funds under this scheme. Rs. 663.5 million was lent to 427 entrepreneurs under a concessionary rate of interest of 6% p.a.

Excellence in Reporting

Our Annual Report 2004 was a winner in several competitions, local and regional. We were the Overall Winner in the competition organised by The Institute of Chartered Accountants of Sri Lanka held in December 2005 and were also placed first in the banking sector. In addition, we emerged as the Winner in Corporate Governance Disclosure Award. In the competition organised by the South Asian Federation of Accountants, we won the Overall Award and were again placed first in the banking sector.

A Growing International Image

The Bank's international image continues to swell. One of the best indications of this came in 2005 when we partnered with the HSBC to raise a two-year syndicated loan facility from

the international market. In 2004, the Bank raised US Dollar 35 million for one year through such a syndicated loan arranged by the Standard Chartered Bank. But this time, the loan was for a two-year period, the country's first ever syndicated loan by a non-sovereign Sri Lankan corporate entity, with a provision for an extension for a third year at the option of the lenders.

There were no roadshows and no special marketing campaigns, yet the issue was oversubscribed and raised US Dollar 65 million surpassing the Bank's original target of US Dollar 50 million at a price of just 75 basis points over the three month US Dollar LIBOR. For us, it was a strong reflection of external investor confidence in the past performance and the future potential of the Bank.

Bringing Remittances Home

The Bank will be exploring the remittances market in a big way over the next few years. We see this as a win-win situation for the Bank, the country and Sri Lankans based overseas. One of our goals is to attract a larger volume of foreign currency remittances

to the country not just from the Middle East but from other parts of the world too such as Canada, Australia etc.

We have already established our presence in three Exchange Houses in Kuwait, Qatar and Bahrain. Plans are afoot for setting up / managing of an Exchange House in Qatar on our own. We have also obtained a licence from the Office of the Superintendent of Financial Institutions, Canada to establish an Exchange House and are in the process of registering a company.

Human Resources

Apart from IT, 'Human Resources' has been the other area into which the Bank has invested time and money in a significant way. Our financial results are very closely related to and is in fact a reflection of the return of such investments.

Our partnership with the Asian Institute of Technology in Thailand and with the National University of Singapore continued to develop over the year. We have also collaborated with the Indian Institute of Banking and Finance in order to conduct Indian

Banking examinations in Sri Lanka and to offer Sri Lankan students a relevant qualification at an affordable cost.

Bangladesh

Our operations in Bangladesh continued to thrive. During 2005, the Bank opened a branch in Dhanmondi, Dhaka, bringing the total outlets in Bangladesh to five. In addition, four ATMs too are now operational. Having established ourselves a mere two years ago we were adjudged the Best Foreign Bank at the 'The Industry Business Awards 2005' for the second consecutive year. It is another feather in our cap and has positioned us well on the banking map in that country.

While our initial focus was on corporate banking we have decided now to move progressively into retail banking and offer products in this area too. We have received approval from the Bangladesh Bank to open two new branches and will soon establish ourselves in the Shylet region.

We are also looking at tapping the remittances market in Bangladesh with a view to routing a larger volume of foreign currency into the country via our Bank.

Highest Single Borrower Limit among peer banks

India Beckons

We are exploring every avenue with regard to the Indian market, yet the Indian regulations pose a stiff hurdle. There are two modes of entering the Indian market: either by acquiring a relatively small Indian bank with 30-40 branches or by establishing an operation on our own. We also have the option of forging a partnership with another Sri Lankan bank for the purpose of entering the Indian market.

As part of the Comprehensive Economic Partnership Agreement (CEPA) negotiations, Sri Lankan banks have been pushing for recognition as 'National Banks' rather than being seen as foreign banks and consequently being subject to stringent regulations. Indian banks at the same time have been asking for similar concessions from the Sri Lankan Government.

Gearing for Risk

The Basle II requirements will come into operation in 2008 and the banks will be forced to develop new pricing and capital structures to meet these requirements. Some banks may be

forced to increase their capital base by way of new equity or through subordinated debt. I am happy to state that our Bank has been gearing for this for some time and is ready to comply with the new requirements.

Stagnating Loans

The procedures for the recovery of non-performing loans by resorting to litigation are out of step with current trends. When it comes to money recovery actions, banks still experience long delays at the Courts. Further, there is a certain degree of ambiguity in relation to the enforcement of mortgage bonds executed by 'third parties'.

New Tax Regime comes into effect

The new tax regime introduced through the 2006 budget proposing to increase the corporate tax rate of public quoted companies from 30% to 35%, the Financial VAT from 15% to 20% and Social Responsibility Levy from 0.25% to 1% has sharply increased the percentage of profits that banks pay out by way of taxes. Financial institutions are required to pay income tax on the Financial VAT which is

charged on the profit and the cost of employee emoluments, resulting in incidence of dual taxation. Effectively, the Bank will pay out this year between 55% to 60% of its profit by way of taxes to the State.

The new tax regime discourages staff expansion and instead, encourages outsourcing / automation so as to reduce costs. Managing with between 40%-45% of the Bank's profits for infrastructure development, dividend payments and other improvements, will be a challenge for the management. The Government needs to finance its new welfare measures and the Financial Services sector has been picked on as a captive sector. The Bank's target is to earn a return of at least 2% on its assets. But, we have been able to achieve only between 1.25% and 1.50% so far because of the high levels of taxation.

Directed Lending

'Directed Lending' is now a feature of the new financial policies of the Government. Through such a policy the Government would try to ensure that

lending institutions do channel funds in directions that the state considers priority areas. The agricultural sector and the SME sector have been identified as priority areas and we are likely to see incentives that will encourage concessionary lending to these areas.

VAT on Bullion is removed

The removal of VAT on bullion trading is likely to stimulate this market. While previously much of our bullion trading had been in and around Colombo, we are planning to take bullion trading out into the provinces and provide a stimulus to the jewelry industry in those regions.

New Legislation

New banking legislation has been in the pipeline and the Bank has offered its comments on the draft law. We hope that this new banking law and the new Companies Act will be enacted soon.

Competition

The Government recently established the SME Bank to assist small and medium scale entrepreneurs.

Additionally, a greater presence of Indian banks in the country could also be anticipated in the future along with the possible signing of the Comprehensive Economic Partnership Agreement (CEPA) between India and Sri Lanka.

Peace Talks Scheduled to Resume

After a long lapse, respective delegations from the Government of Sri Lanka and the LTTE are soon scheduled to meet in Geneva face to face to try and find ways of strengthening the ceasefire arrangements between the two parties.

This, no doubt rekindles hopes for peace and it is our fervent wish that this exercise will pave the way for future talks aimed at finding a final solution to the much vexed conflict.

A Phenomenal year

We had another phenomenal year. In previous years we had strived to become the No. 1 Sri Lankan Bank. Having reached this position, we know that it is even more challenging to retain this pre-eminent position.

I want to acknowledge here the commitment, the dynamism and the innovative capacities of all our staff, in every nook and cranny of the Commercial Bank network. The staff has stretched every sinew to make this phenomenal performance possible and I would like to take this opportunity to applaud their efforts. My thanks also go out to all those on the Board for their expert guidance and support. My appreciation to the officers of the Central Bank of Sri Lanka for their cooperation at all times. I also thank Messrs KPMG Ford, Rhodes, Thornton & Company for their professional role in carrying out the external audit and issuing the report on a timely basis enabling the Bank to publish this report and hold the Annual General Meeting early.

I look forward to another challenging and rewarding year.



A.L. Gooneratne
Managing Director

February 14, 2006
Colombo



1 A.L. Gooneratne (*Managing Director*) **2 G.L.H. Premaratne** (*Senior Deputy General Manager - Corporate Banking*)
3 R. Samaranayake (*Senior Deputy General Manager - Finance & Planning*) **4 W.M.R.S. Dias** (*Senior Deputy General Manager - Personal Banking*)
5 M.D.A. Peiris (*Deputy General Manager - Information Technology*) **6 G.L.C. Amarasiri** (*Deputy General Manager - Human Resource Management*)
7 B.H.M.G. Dharmasiri (*Deputy General Manager - Corporate Banking*) **8 S.D. Bandaranayake** (*Deputy General Manager - Operations*)
9 M.A. Pemasiri (*Asst. General Manager - Services*) **10 Delip Fernando** (*Asst. General Manager - Inspection*)
11 P.V. Ratnapala (*Asst. General Manager - Personal Banking I*) **12 D.S. Weeratunga** (*Asst. General Manager - Treasury*)
13 K.D. Nimal Luxshman (*Asst. General Manager - Personal Banking II*) **14 Jegan Durairatnam** (*Asst. General Manager - International*)
15 Raja Senanayake (*Asst. General Manager - Finance & Planning*)



16 S. Raghavan (Head of Exports) 17 Vimal Fernando (Senior Regional Manager - Colombo South) 18 Mrs. Marion Abeywardena (Head of Corporate Banking - I)
 19 Ajith Wijayasundara (Head of Information Technology) 20 Mrs. Carmelita De Silva (Head of Corporate Banking - II) 21 Chandana Gunasekera (Senior Regional Manager - Colombo Inner)
 22 Claude Perera (Head of Human Resource Management) 23 Palitha Narangoda (Head of Treasury) 24 Felician Perera (Head of Recoveries) 25 Richard Rodrigo (Head of Marketing)
 26 Palitha Perera (Head of Operations) 27 Mrs. Sandra Walgama (Regional Manager - North Western) 28 C.M. Abeysekera (Chief Manager - Corporate Banking)
 29 Mrs. Sarojini Dunuwille (Chief Manager - Legal) 30 S. Renganathan (Country Manager - Bangladesh) 31 Hilary Fernando (Chief Manager - Treasury Processing)
 32 Niran De Costa (Regional Manager - Colombo North) 33 B.W.R. Srikantha (Regional Manager - Central) 34 Naveen Sooriyarachchi (Chief Manager - Corporate Finance)
 35 Duminda Kurukulauriya (Chief Manager - Imports) 36 Roshan Perera (Regional Manager - Greater Colombo) 37 Mrs. R.R. Dunuwille (Company Secretary)
 38 Nugent Kapuwatte (Chief Manager - Leasing and Personal Loans) 39 Noel Wickramasinghe (Chief Manager - Logistics) 40 Sarath Pallewela* (Chief Manager - Security)
 41 V.S. Rajasooriyar* (Regional Manager - North Eastern) 42 Anura Ratnayake* (Chief Manager - Operations - Foreign Branch) 43 Lakshman Perera* (Chief Manager - Card Centre)
 44 Vajira Thotagammana* (Chief Manager - IT Research & Development)

* Since promoted



1 **S. Renganathan** (Country Manager) 2 **D. Das Gupta** (General Manager) 3 **S. Prabagar** (Chief Operating Officer)
 4 **S. Kutubuddin Ahmed** (General Manager - Risk, Compliance and Corporate Affairs) 5 **Golam Mortuza** (Deputy General Manager - International Trade)
 6 **Mehboobur Rehman** (Deputy General Manager - Human Resources)

Winning Streak Continues...



01

01 Country Manager - Bangladesh receiving the "Arthakantha Business Award for Outstanding Achievement in banking sector in Bangladesh" awarded by the Arthakantha Business Magazine from the Minister of Commerce, Bangladesh.



02

02 Commercial Bank was awarded the "Best Performing Foreign Bank" Award at the recently concluded Financial News Services (FNS) Business Awards 2005. General Manager receiving the award from the Minister of Communications, Bangladesh.

54.28%

Best cost to income ratio among peer banks

Financial Review

Year 2005 proved to be very challenging particularly in the backdrop of the environment brought about by the tsunami and the subsequent appreciation of the Sri Lankan Rupee, the sharp rise in oil prices and consequent inflationary pressures and the Presidential Election held in November 2005. Yet, Commercial Bank continued to be the most profitable and financially strong bank in Sri Lanka, among its peer banks, as evident from the level of profit, financial ratios and the local and international recognition it has received.

Solid performance in most areas of business helped the Bank report a record level of earnings in 2005. Strong organic growth was seen in almost all major activities. Despite the customer base and the volumes of business recording substantial increases, the Bank managed to maintain a consistent risk profile and in fact reported improvements in credit quality in terms of non-performing assets ratio and level of provisioning for possible loan losses. Costs remained firmly under control and growth in earnings well exceeded growth in costs. All these factors further strengthened the pre-eminent position of the Bank in the Sri Lankan banking industry.

Capital Adequacy Ratios remained robust but continue to be under pressure due to profit retention not being sufficient to support the enhanced capital requirements arising from the growth in risk weighted assets and the opportunities available in the market for raising subordinated debt capital being limited.

The pre-tax profit of the Bank grew to Rs. 3,641.960 million after the payment of Financial VAT of Rs. 622.936 million for the year ended December 31, 2005 as against Rs. 2,503.931 million in 2004, a growth of 45.45%. The increase was facilitated by a 23.40% growth in net interest income, 27.79% growth in fee and commission income, and other income by 58.21%. Due to the appreciation of the Rupee against the US Dollar and most of the foreign currencies, foreign exchange profit however declined by 32.81%, mainly as a result of translation losses on the profits retained in US Dollars in the Off-shore Banking Centre and losses on the conversion of the accounts of the Bangladesh operations into Sri Lankan Rupees. Operating expenses increased by 6.60% for which the main contributory factor was the increase in Financial VAT on profit paid by the Bank.

The Banks' post-tax profit of Rs. 2,364.240 million in 2005 reflected a growth of 40.33% compared to Rs. 1,684.714 million in 2004. The relatively

lower growth in post-tax profits is mainly attributable to the increase in the provision for taxation from Rs. 819.217 million in 2004 to Rs. 1,277.720 million in 2005 as a result of the Financial VAT being fully disallowed as a deduction from April 2005 and the contributions to the Pension Fund and the Employees' Provident Fund in excess of 25% of the salaries of the pensionable employees being added back for tax purposes etc.

The provision for possible loan losses amounted to Rs. 414.864 million in 2005 (including provisions required in terms of the "Hair Cut Rule" of the Central Bank amounting to Rs. 121.835 million), compared to Rs. 699.200 million provided in 2004. In 2005, for the second consecutive year, the Bank was able to reduce the non-performing assets in absolute terms thereby bringing down the Non-Performing Assets ratio to 4.07% from 5.34% in 2004. This signifies a remarkable improvement in post-sanction monitoring and recovery efforts. Adequate provisions were made relying less on securities pledged and as a result, the Provision Cover and the Open Credit Exposure ratio improved to 53.85% and 12.37% respectively, as at December 31, 2005.

The Directors recommend a 30% final dividend on Ordinary Shares payable on March 30, 2006, which together with the

interim dividend of 15% paid in November 2005 will add up to a total dividend of 45% for the year 2005 on the enhanced share capital of the Bank consequent to the 1 : 1 scrip issue of ordinary shares in June 2005. This amounts to an increase in dividends by 50% in absolute terms and works out to a rate of dividend of 90% on the pre scrip issue ordinary share capital of the Bank.

The pre-tax profit of the Commercial Bank Group amounted to Rs 3,668.048 million as against Rs. 2,594.471 million recorded in 2004, which amounted to a growth of 41.38%.

The post-tax profit of the Group for the year which amounted to Rs. 2,358.079 million, reflected a growth of 36.53%, compared to the post-tax profit of Rs. 1,727.101 million of the Group in 2004. This was mainly due to the relatively lower growth in post-tax profits of the Bank.

The business volumes of the Bank recorded impressive growths during the year. Deposits grew by 29.24% while advances grew by 29.32%. In order to supplement the deposits mobilisation efforts, Bank raised Rs. 1.309 billion through a private placement of debentures and borrowed from the international markets US Dollar 65 million through a syndicated loan. Total assets of the Bank too grew by 30.04% and stood at Rs. 180.077 billion as at December 31, 2005.

It is interesting to note that the Bank has been able to maintain Compounded Annual Growth Rates in excess of 24% in Deposits, Advances and Total Assets while that of pre and post-tax profits was approximately 22% over the past ten years.

Corporate Banking Products

- Letters of Credit
- Shipping and other guarantees
- Import and export finance
- SWIFT facilities
- Syndicated loans
- Project financing
- Securitisations
- Structuring, managing and underwriting of Initial Public Offerings and Private Placement of Equity
- Company valuations and restructuring
- Investment advice and evaluation
- Structuring of Corporate Debt Instruments
- Working capital financing
- Internet banking
- Sponsor of the Colombo Stock Exchange
- Bullion trading
- Domestic and International Factoring
- Off-shore banking facilities
- Leasing

Core Competencies in Corporate Banking

- Expertise in trade finance and corporate credit
- High level of professionalism
- Speedy response to customer requests
- Customer friendly service
- Innovative products
- State-of-the-art technology
- Largest linked branch network
- Margin provider and underwriter for Capital Market Activities

Future Strategies for Corporate Banking

- To offer exclusive and the best service standards in the Industry
- To strengthen and broaden our presence in Bangladesh
- To consolidate relationships with Maldivian clients
- To simplify operations and ensure speedy delivery
- To offer the most competitive terms backed by state-of-the-art IT
- To further improve the quality of the total advances portfolio.
- To diversify the advances portfolio.
- To leverage on the strong relationships with our worldwide correspondents.

● Corporate Banking

The Corporate Banking Division comprises of the Foreign Branch, the Corporate Finance Unit (CFU), the Off-shore Banking Centre and the Bangladesh Operations. This Division with its expertise in Trade Finance, Corporate Finance, Project Financing, Leasing, Factoring, Working Capital Financing and related services caters mainly to the banking needs of the large to medium sized domestic corporate customers and multinational corporate clients.

Despite the political and economic uncertainty that prevailed in the country in 2005, loans and advances granted in the Corporate Banking Division recorded a healthy growth of 22.93%.

Loans and advances portfolio of our Bangladesh operations too grew by 16.12% during the year. A branch was opened at Dhanmondi bringing the total number of branches/booths in Bangladesh to five. Two more branches are planned for 2006. Holiday Banking and Progressive Saver Accounts too were introduced. Aureos Capital tied up with our Bangladesh Operations for investing in Bangladesh.

We consolidated our position in Bangladesh further. Our Bank was adjudged the "Best Performing Foreign Bank" operating in Bangladesh at the Financial News Services Business Awards 2005. In 2004, we received "The Industry - Business Award 2004" for the Best Foreign Bank in Bangladesh. We were also

Gross Loans & advances portfolio of the Bank grew by 29.32%

The contribution of the Corporate Banking Division can be summarised as follows:

	2005		2004	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	1,635.095	44.90	1,168.666	46.68
Loans and Advances (Gross)	69,148.748	55.57	56,252.681	58.46
Deposits	34,614.268	27.13	31,053.746	31.45

involved in the first ever securitisation transaction in Bangladesh, during the year.

In addition to providing conventional banking services, we have now progressed to infrastructure and project financing.

The Bank's lending portfolio to the Maldivian corporate clients recorded a moderate growth in 2005 despite the set back to the Maldivian Tourism Industry due to the tsunami. Though, the Bank has been continuing its lending activity in the Maldives without a physical presence, it is noteworthy to mention that the portfolio continues to be of high quality.

The lease portfolio of the Foreign Branch exceeded Rs. 1.600 billion as at December 31, 2005, recording a growth of 35% in 2005.

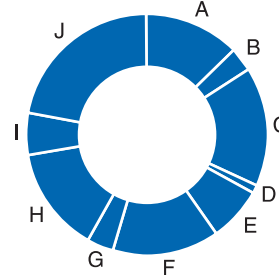
Domestic factoring also recorded a commendable growth of 43% in 2005 to reach a level of Rs. 420.0 million. We commenced export factoring in 2005 under the membership of the Factors Chain International. We will concentrate on improving the export factoring portfolio in 2006.

The CFU significantly increased its scope of activities in 2005, recording a 130% increase in the fee-based income from IPO Management and other Investment Banking activities. Apart from focusing on structuring, managing and underwriting of Initial Public Offerings (IPO) of companies, the CFU forged closer links with the Securities and Exchange Commission of Sri Lanka (SEC) and the Colombo Stock Exchange (CSE). The Bank is now recognised as a "Sponsor" of the CSE allowing direct submission of listing applications of Companies to

the CSE, thereby facilitating IPO management. During the year, the Bank was also appointed as a participant of the Central Depository Systems (Pvt) Ltd. Participant status permits the Bank to offer custodial services to customers. The Bank has been registered with the SEC as a Margin Provider and Underwriter, thus facilitating activities in these areas.

Sectoral Classification of Loans & Advances - 2005

A Exports - 13%	F Imports - 14%
B Tourism & Allied - 3%	G Consumption - 4%
C Industrial - 16%	H Services - 14%
D Agriculture & Fishing - 1%	I Housing & Construction - 6%
E Commercial Trading - 7%	J Others - 22%



Largest on-line real time Branch & ATM network

Personal Banking Products

- o Current, Savings (Passbook and Statement) and Fixed Deposit Accounts
- o CAT Cards
- o Priority Banking Cards
- o Credit Cards
- o "Arunalu" and "Isuru" Minors' Accounts
- o "DotCom" and "DotCom Spin" Teen Saver Accounts
- o Progressive Saver Accounts
- o Certificates of Deposit
- o Salary Remittance Package
- o "Nivahana" Housing Loans with Fixed and Floating Rates
- o "Pahan" Personal Loans with top-up facility
- o "ComShakthi" Leasing facility
- o "Diribala" Development Loans
- o e-Exchange - Money transfer facility
- o Holiday Banking Centre
- o Saturday Banking
- o Priority Banking
- o ComBank Online-Internet Banking
- o Telephone/SMS Banking
- o "Udara" Senior Citizens' Deposit Account
- o "FC Plus" - Foreign Currency Savings Account with high interest rates
- o DOLLARSMART - Foreign Currency Deposits in Bangladesh
- o Utility Bill payment service through ATM/Internet
- o Bancassurance
- o Com-e-Load-mobile phones reload facility
- o Mobile ATM
- o Com-Leap - Tiered Savings Accounts

Core Competencies in Personal Banking

- o State-of-the-art Information technology
- o "ComNet" computer linked branch and ATM network
- o Wide range of products
- o "One Stop" facilities
- o Speedy and friendly service

Future Strategies for Personal Banking

- o To develop new low cost delivery channels
- o To adopt new customer relationship and segmentation techniques
- o To expand cross-selling
- o To develop new products tailor-made to specific market segments

● Personal Banking

The Personal Banking Division is responsible for the successful operation of the extensive islandwide network of delivery channels which caters mainly to the banking needs of personal customers and small & medium enterprises.

The traditional brick and mortar branches still continue to play an important role in Sri Lankan banking. During 2005, nine new delivery points were opened and 32 ATMs were installed including 5 at off-site locations widening the network and making Commercial Bank a truly National Bank. The delivery points opened during the year consisted of 5 branches - Kotikawatte, Moneragala, Kottawa, Tangalle and Tissamaharama, 3 Customer Service Points (CSPs) at Pita Kotte, Negombo and Kurunegala and a Supermarket Counter at the Nihal's Super at Anniwatte, Kandy.

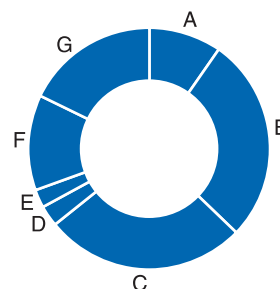
Additionally, the CSPs at Katubedda and Baseline Road were upgraded to fully-fledged branches. Branches at Rajagiriya, Maradana, Vavuniya, Kochchikade, Katugastota and Wattala and the CSP at the Ramanayake Mawatha

were relocated in more convenient locations. Negombo branch commenced 365 day banking while Wellawatte and Nugegoda branches commenced offering Saturday Banking.

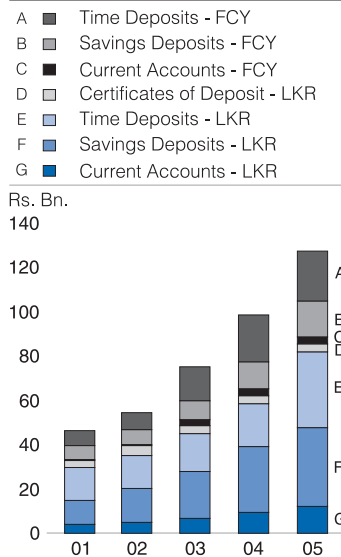
Bank considers this network, branded ComNet, to be a great asset that provides immense potential and opportunities for future growth of the Bank. By the end of the year, the total network of Delivery Channels of the Bank in Sri Lanka comprised of 114 fully-fledged Branches, 6 CSPs, 13 Supermarket outlets, a Counter at the Bandaranaike International Airport and 219 ATMs.

Deposit Mix - 2005

A Current Accounts - LKR - 10%	E Current Accounts - FCY - 3%
B Savings Deposits - LKR - 27%	F Savings Deposits - FCY - 13%
C Time Deposits - LKR - 27%	G Time Deposits - FCY - 18%
D Certificates of Deposit - LKR - 2%	



Growth in Deposit Mix



Bank will continue to expand the number of Delivery Points and the ATMs further. The substantial increase in the number of transactions through the ATMs, which dispense on average Rs. 175 million in 40,000 transactions each day, bears ample testimony to the immense popularity of our “CAT” ATM network.

Issue of Credit Cards under franchise from Master Card International and “CAT” ATM cards too comes under this Division. The number of “CAT” cards issued exceeded 1,000,000 during the year.

The Priority Banking Centre was relocated at the Reid Avenue branch for convenience of the customers. This Centre offers a preferential and an expeditious service to its customers at this convenient location with an array of exclusive benefits and privileges, befitting the special status and standing of these customers.

The eight Regional Offices made a substantial contribution to the excellent performance of the Personal Banking Division by decentralising and expediting the process of decision making relating to credit and operations of Branches.

The contribution of the Personal Banking Division can be summarised as follows:

	2005		2004	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	1,760.379	48.34	1,123.819	44.88
Loans and Advances (Gross)	55,284.671	44.43	39,969.904	41.54
Deposits	92,987.012	72.87	67,676.095	68.55

Personal Banking Division channelled funds mobilised in excess of their lending requirements to the Corporate Banking Division and the Treasury, thus making low cost funds available to the Corporate Banking Division and the Treasury to be utilised for their lending and investment activities.

Treasury Products

- o Foreign exchange dealings
- o Forward exchange bookings
- o Commercial Paper
- o Foreign currency swaps
- o Interest rate swaps
- o Advice on foreign currency market movements

Core Competencies in Treasury

- o Expertise on foreign currency movements and asset management
- o Expertise on foreign currency related products development

Future Strategies for Treasury

- o Developing innovative treasury products
- o Streamlining risk management measures
- o Developing fee based operations through debt market instruments

● Treasury

The Treasury is primarily responsible for managing the liquidity, exposure to market risks and mobilisation of resources from domestic as well as international markets.

Mobilisation of US Dollar 65 million at an interest rate of 75 basis points over the LIBOR through a 2-year syndicated loan with a put option for a further year lead-arranged by the Hongkong & Shanghai Banking Corporation made year 2005 a landmark year for the Treasury. This was in fact the country’s first ever such syndicated loan by a non-sovereign entity. In addition, the Treasury raised Rs. 1.309 billion by the issue of Debentures through a private placement.

Trading operations were active. Market-making was carried out in the domestic market in US \$/ Rupee foreign exchange dealing in both Outright Spot, Forward and Swap Transactions. Also on the Government Securities Market, main focus continued to be offering market solutions to Corporate Clients in Treasury related activities. Significant increases in volumes and profits arising from foreign exchange operations were recorded during the year. With the objective of mitigating currency exposures, arising out of volatilities in the market, dealers also took time and effort to advise customers in managing such risks and reaping better profits.

The Treasury made this contribution while maintaining a substantially good transfer price to the branches and other business units.

In the absence of the incentives to operate in the form of a subsidiary, the Primary Dealer activities were brought back to the Bank from its Primary Dealer arm, Commercial Bank Primary Dealer Ltd. (CBPDL) which ceased operations as at September 30, 2005. The CBPDL up to cessation of business and the Primary Dealer Unit of the Bank from October to December recorded profits before tax of Rs. 12.583 million and Rs. 9.163 million respectively.

Management Discussion and Analysis

The contribution of the Treasury as a Profit Centre can be summarised as follows:

	2005		2004	
	Rs. Mn.	%	Rs. Mn.	%
Profit before Tax	246.486	6.76	211.446	8.44
Asset Portfolio	39,224.767	21.78	30,131.595	21.75

During the year, Sri Lankan economy experienced increasing inflationary pressures due to rise in prices of crude oil and other commodities in the international markets and political uncertainty as a result of the Presidential Election. However, country's economy is estimated to have grown at a relatively stronger pace of 5% mainly due to growth in the agricultural production and growth in the service sector.

Perceptions were high in the market for high inflation and high interest rates. Market witnessed a money supply growth and also a growth in reserve

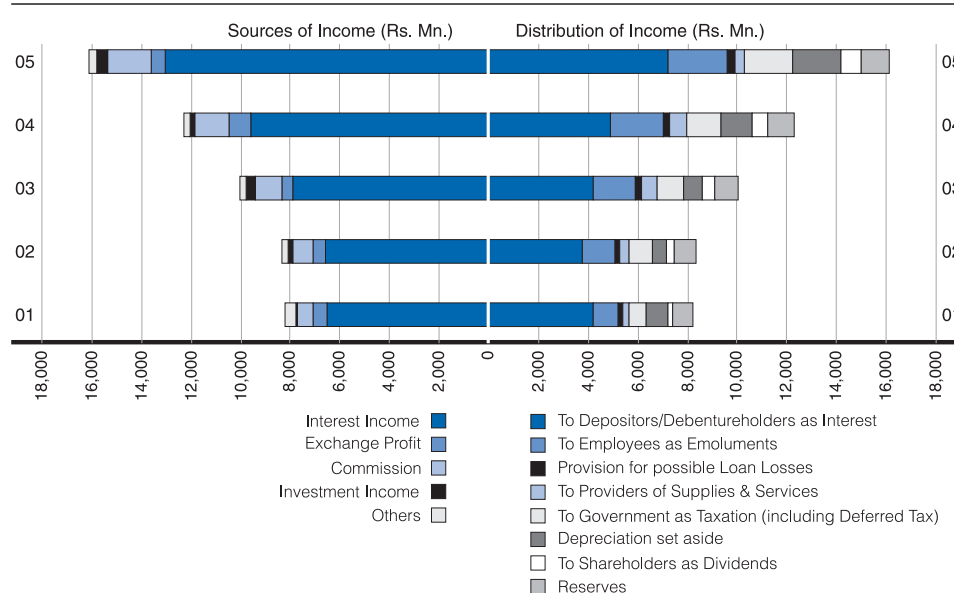
money, which were mainly due to high demand for consumer credit in the private sector and credit to Government sector by the state banks. Rate of inflation as at end 2005 based on 12-month moving average of the Colombo Consumer Price Index was 11.6%. These developments prompted the Central Bank to tighten the Monetary Policy during the second half of 2005. Policy rates were raised by 125 basis points during the year. Meanwhile, global interest rates were also in a rising trend, US Federal Reserve Bank increased its Fed Funds rate by 200 basis points at eight consecutive occasions during the year.

These events did not augur well for the financial markets, in particular for the Government Securities Market. Demand for medium to long term bonds were relatively low expecting yields to rise further.

The Sri Lanka Rupee appreciated by 2.33% against the US Dollar and more significantly against several other currencies (Pound Sterling by 14.45%, Euro by 17.66% and Japanese Yen by 17.53%) during the year compared to the exchange rates that prevailed as at December 31, 2004. This was mainly due to inflow of funds to the country for tsunami relief work and debt moratorium resulting in a Balance of Payments surplus of US Dollar 501 million as at end 2005.

The Bank continued to upgrade its technological capabilities in handling Treasury operations. The Treasury increased the human resource and enabled them to upgrade their skills and knowledge levels to achieve the ambitious growth targets of the Bank.

Sources and Distribution of Income



High System Availability of over 99%

● Information Technology

The IT infrastructure of the Bank went through a major overhaul during the year with the upgrade of both the production as well as the backup machines to the latest models. This was a major upgrade costing over Rs. 100 million and makes the host machines capable of handling the business volumes for the next few years.

The rolling out of the new front-end software was completed for all the branches. The ATM and Credit Card system software too were upgraded to the latest versions.

The systems are in a stable position now with current versions of Core Banking software at both Back-end and Front-end, current versions of ATM and Credit Card software and upgraded hardware.

The “Hot Backup” solution was rolled out for selected applications and would be implemented for all critical applications during 2006.

A Call Centre was set up and it currently caters for queries relating to Credit Card and e-Banking services. It is intended to make this Call Centre the single contact point of the Bank for all customer queries.

Two significant mobile banking solutions were introduced during the year. Both solutions were the first of their kinds to be introduced in Sri Lanka. The first one is the mobile ATM solution based on GPRS technology. A vehicle was customised for this purpose and it can now be placed at any location where Dialog’s GPRS service is available in order to provide ATM services.

The second mobile solution is the “Com e-Load” service, which allows customers to transfer funds from their current or savings accounts to their Dialog pre-paid card instantly by sending a short message (SMS) to the Bank. This was launched towards the latter part of the year and it is expected to become popular within the next few months.

Overall system availability and the ATM uptime was exceptionally high during the year – with unscheduled outages of the main system being limited to only two occasions (lasting for 2-3 hours) for the entire year.

The year 2006 would be a year of consolidation for IT with the introduction of network monitoring and management tools to better utilise the network resources. A Business Intelligence/Data Warehousing solution would be evaluated for implementation.

● Strategic Direction and the Challenges of the Bank

Each year, both the Management Committee and the Board of Directors critically review the Corporate Plan and the Budget prepared for the ensuing three years on a “rolling basis”. After carrying out an extensive SWOT analysis on the Bank, the Corporate Plan and the Budget incorporates the Goals, Objectives and Strategies proposed to be implemented for achieving them together with specific

time frames, in the context of the Vision and the Mission of the Bank. Undoubtedly, the Corporate Plan and the Budget has immensely contributed in building up the target driven culture across the Bank which has helped the Bank to record superior performance year after year and maintain its pre-eminent position.

Priorities identified in the Corporate Plan to be implemented in the medium term include improving key performance ratios, expansion of overseas operations in other countries in the SAARC Region thereby reducing the over-dependence on the Sri Lankan economy further, consolidation of the Bangladesh

Operations, expanding the remittance business further in the Middle Eastern countries and set up such business in several selected European countries and in Canada and Australia, under the brand name “Commex”, promoting the Bank’s subsidiary companies - specially ONEzero Co. Ltd. and X-pertise Ltd., expanding credit and support services to the SME sector, increasing the contribution from fee based operations, making the maximum use of the distribution network, growth through business acquisitions etc. The Bank has also set its eyes on becoming the largest private sector bank in the country and will be working hard to get the credit rating upgraded.

The challenges that the Bank will have to face in pursuing the above strategic direction also have been identified, some of which are increasing competition and resulting erosion of interest margins, infusion of new capital to facilitate expansion plans, raising of capital under Tier I and / or Tier II for Capital Adequacy purposes, containment of costs in the wake of inflationary pressures, carrying out pension reforms, managing the impact of exchange rate volatility, making the Bank Basle II compliant, enhancing the Bank’s capacities and processes to support faster growth and increases in direct and indirect tax rates.

● Sources and Distribution of Income

For the year ended December 31, **2005** 2004 2003 2002 2001
Rs. Mn. Rs. Mn. Rs. Mn. Rs. Mn. Rs. Mn.

Sources of Income

Interest Income	13,033	9,584	7,931	6,613	6,510
Foreign Exchange Profit	587	874	397	464	563
Commission Income	1,760	1,377	1,051	824	636
Investment Income	441	217	401	179	55
Others	279	238	279	284	439
	16,100	12,290	10,059	8,364	8,203

Distribution of Income

To Depositors/					
Debtentureholders as Interest	7,226	4,878	4,218	3,747	4,174
To Employees as Emoluments	2,364	2,132	1,697	1,312	1,022
Depreciation set aside	299	260	222	200	181
Provision for possible Loan Losses	415	699	623	402	237
To Providers of Supplies & Services	1,527	1,373	1,069	920	726
To Governments as Taxation					
(Including Deferred Tax)	1,905	1,264	753	579	853
-Income Tax	1,278	819	477	321	315
-Turnover Tax	-	-	-	-	52
-National Security Levy	-	-	-	257	486
-Debts Tax	4	4	4	1	-
-Financial VAT on Profits	623	441	272	-	-
To Shareholders as Dividends	869	650	538	327	221
To Reserves	1,495	1,034	939	877	789
	16,100	12,290	10,059	8,364	8,203

Sustainability - A Vital Cog in our Machine

The Bank's overall mission is to deliver optimum value to our customers, employees, shareholders and the nation and our business strategy is geared towards achieving this.

This section covers the value we deliver to our shareholders and the nation at large.

The Bank's policy has been to deliver optimum value in a manner that is consistent with the highest levels of fairness and transparency. For the Bank, it has not been a case of building financial value and enhancing the bottom line at any cost, but rather participating in a process of creating value through fair and ethical means. Building sustainable value for all stakeholders is an important corporate goal.

Some of the measures taken to create, sustain and deliver optimum value are as follows.

Maintaining Liquidity

The liquidity policy of the Bank has always been to carry a positive mismatch in the interest earning assets and interest bearing liabilities in the 1 to 30 day category. Our liquidity remained at optimum levels during the year. The Liquid Assets ratio stood at 24.51% in December 2005.

The Assets and Liabilities Committee (ALCO) of the Bank monitors the situation and maintains a satisfactory trade-off between liquidity and profitability.

Payment of Dividends

The dividend policy of the Bank has always been to pay a decent dividend to its shareholders while ploughing back sufficient profits to fund growth and capital adequacy requirements. As a result of this prudent dividend policy, the Bank has been able to build up its

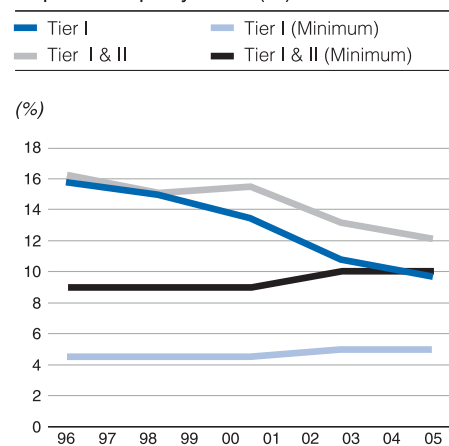
shareholder fund base to satisfactory levels. In fact, the Commercial Bank has the highest amount of free capital among the banks in the country today.

Considering the performance of the Bank over the past year, the Board has recommended a dividend of 45% for the year (of which 15% was paid in November 2005), which is an increase of 50% on the pre-scrip issue share capital of the Bank.

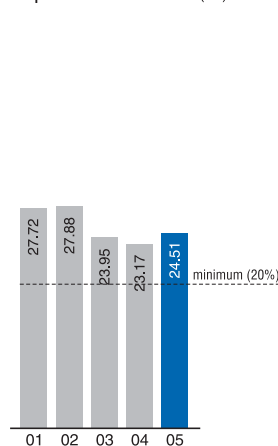
Managing Risks

A well-structured Risk Management System is in place within the Bank to address all types of risks: Market, Credit, Operations, Business Volumes and Reputational. The Assets and Liabilities Committee and the Credit Committee meet regularly to review the market and credit related factors and recommend and implement suitable measures to counter associated risks.

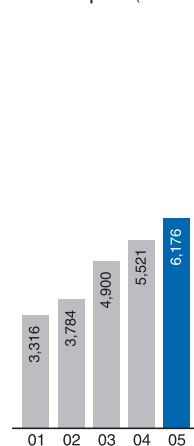
Capital Adequacy Ratio (%)



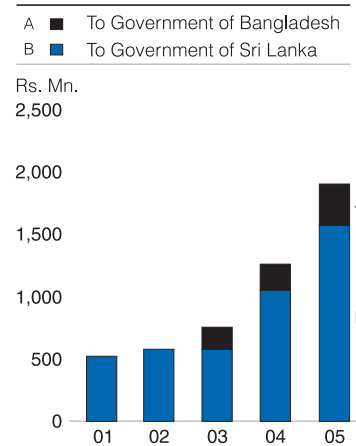
Liquid Assets Ratio (%)



Free Capital (Rs. Mn.)



Revenue to Governments



Appropriate internal control measures and contingency plans are in place to address operational risks. The Board is involved in a bi-annual review of the Risk Management System. Detailed risk management measures in place are given in the article on Risk Management on page 61 of this Report.

Ensuring Resource Efficiency

Deposits and Shareholders' Funds represented the two biggest resources of funds for the Bank, accounting for 71% and 9% respectively of the total liabilities and shareholders' funds as at December 31, 2005. Mobilising deposits from stable and low cost sources and the prudent investment of funds are imperative for improving the profitability of the Bank. In addition, the Bank mobilises funds from non-deposit sources such as Debentures, Syndicated Borrowings etc.

Through careful planning, a prudent dividend policy and controlling expenditure on capital items and investments, the Bank ensured that the Shareholders' Funds, the Free Capital and the Single Borrower Limit continued to grow. Total Shareholders' Funds, Free Capital and the Single Borrower Limit were Rs. 15,768.383 million, Rs. 6,176.117 million and Rs. 4,602.642 million respectively as at December 31, 2005.

Maintaining Capital Adequacy

Capital Adequacy symbolises the financial strength and stability of a bank. It limits the extent up to which banks can expand their business in terms of risk weighted assets.

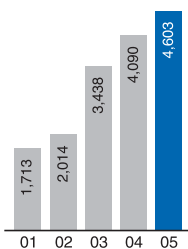
Like all commercial institutions, banks too constantly look at ways of expanding their operations by acquiring property, plant & equipment, opening branches, in addition to mobilising deposits, providing loans and investing in other assets.

Regulatory capital requirements are therefore necessary to prevent banks from expanding beyond their ability to manage (over trading), to improve the quality of banks' assets, to control the ability of the banks to leverage their growth and to lead to higher earnings on assets, leading to peace of mind of all the stakeholders. The Bank keeps a careful check on its Capital Adequacy Ratios.

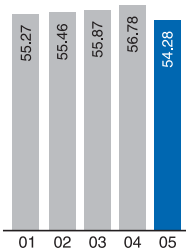
The Capital Adequacy Computation of the Group as at December 31, 2005 is given on page 33.



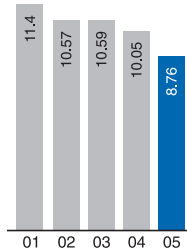
Single Borrower Limit (Rs. Mn.)



Cost/Income Ratio (%)



Shareholders' Funds/ Total Liabilities (%)



Senior Deputy General Manager (Finance & Planning) and Senior Deputy General Manager (Personal Banking) accepting awards for the "Best Bank in Sri Lanka 2005" and "Bank of the Year 2005" awarded by the Global Finance and The Banker Magazines respectively.

Capital Adequacy Computation - Group

Computation of Risk-Weighted Assets

Assets	Balance		Risk-Weight Factor (%)	Risk-Weighted Balance	
	2005	2004		2005	2004
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
Cash, Statutory Deposit with Central Banks, Treasury Bills, Government and other Securities	22,497,900	20,293,235	-	-	-
Loans secured by Cash and Guaranteed by Central Bank of Sri Lanka	13,198,084	10,064,585	-	-	-
Loans Guaranteed by SLECIC	8,000	5,128	50	4,000	2,564
Loans secured by Primary Mortgages over Residential Property	8,226,039	4,979,818	50	4,113,020	2,489,909
Other Loans and Advances	97,617,906	76,156,028	100	97,617,906	76,156,028
Credit Equivalent of Off-Balance Sheet Items (as shown below)	11,005,297	9,798,044	100	11,005,297	9,798,044
Due from Banks Abroad	15,723,987	9,049,451	20	3,144,797	1,809,890
Due from Local Banks including Development Financial Institutions	376,010	564,300	20	75,202	112,860
Cash Items in the Process of Collection	122,317	45,910	20	24,463	9,182
Investments excluding Investments in Financial Associates	2,204,710	1,388,817	100	2,204,710	1,388,817
Property, Plant & Equipment and Intangible Assets	3,516,183	3,133,765	100	3,516,183	3,133,765
Other Assets	3,991,381	2,588,222	100	3,991,381	2,588,222
Total	178,487,814	138,067,303		125,696,959	97,489,281

Credit Equivalent of Off-Balance Sheet Items

Instruments	Balance		Credit Conversion Factor (%)	Risk-Weighted Balance	
	2005	2004		2005	2004
	Rs. '000	Rs. '000		Rs. '000	Rs. '000
General Guarantees of Indebtedness (Credit Guarantees and Advance Payment Guarantees)	6,279,508	5,080,658	100	6,279,508	5,080,658
Performance Bonds, Bid Bonds and Warranties	3,419,905	3,672,612	50	1,709,953	1,836,306
Shipping Guarantees	1,117,648	1,261,650	20	223,530	252,330
Documentary Letters of Credit	9,373,307	10,043,603	20	1,874,661	2,008,721
Usance Bills	4,517,958	2,989,335	20	903,592	597,867
Bills for Collection	4,346,833	4,674,224	-	-	-
Foreign Exchange and Interest Rate related Contracts:					
Customers	19,718	17,071	50	9,859	8,536
Banks	20,969	68,130	20	4,194	13,626
Total	29,095,846	27,807,283		11,005,297	9,798,044

Economic Impact Report

Capital Adequacy Computation - Group (Contd.)

Computation of Capital

	2005	2004
	Rs. '000	Rs. '000
TIER I : Core Capital		
Paid-up Ordinary Shares	1,420,809	696,799
Share Premium	1,679,604	2,186,874
Statutory Reserve Fund	1,421,819	1,009,819
Published Retained Profits	83,869	132,358
General and other Reserves	7,550,789	6,470,789
Minority Interest	13,285	12,364
Less: Goodwill	-	-
Total Tier I Capital	12,170,175	10,509,003
TIER II : Supplementary Capital		
Revaluation Reserve (as approved by the Central Bank of Sri Lanka)	651,037	651,165
General Provisions	85,411	42,111
Approved Subordinated Term Debt	3,455,646	2,795,528
Total Tier II Capital	4,192,094	3,488,804
Total Capital	16,362,269	13,997,807
Deductions		
Investments in Banks and Financial Associates	1,176,084	1,169,747
Capital Base	15,186,185	12,828,060

Computation of Ratios

	2005	2004
	Rs. '000	Rs. '000
Total Tier I: Core Capital	12,170,175	10,509,003
Capital Base	15,186,185	12,828,060
Total Risk Weighted Assets	125,696,959	97,489,281
	%	%
Core Capital Ratio - Tier I (Minimum Required Ratio is 5%)		
$\frac{\text{Core Capital}}{\text{Risk-Weighted Assets}} \times 100$	9.68	10.78
Total Risk Weighted Capital Ratio - Tier I & II (Minimum Required Ratio is 10%)		
$\frac{\text{Capital Base}}{\text{Risk-Weighted Assets}} \times 100$	12.08	13.16

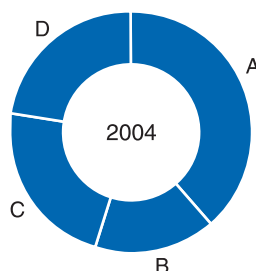
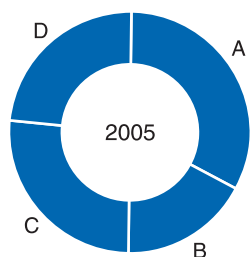
Risk-Weighted Assets

- Loans and Advances are net of specific provisions and interest in suspense.
- Total assets do not tally with the Balance Sheet mainly due to differences in treatment on securities sold under re-purchase agreements and investments in capital of other banks/financial institutions in the capital adequacy computation.

Value Addition

	2005		2004	
	Rs. '000	%	Rs. '000	%
Value Added				
Income from Banking Services	15,578,410		12,050,158	
Cost of Services	(8,381,402)		(6,011,413)	
Value Added by Banking Services	7,197,008		6,038,745	
Non-Banking Income	521,235		239,487	
Loan Losses and Provisions	(414,864)		(699,200)	
	7,303,379		5,579,032	
Distribution of Value Added				
To Employees				
Salaries and other Benefits	2,364,148	32.37	2,131,902	38.21
To Providers of Capital				
Dividends to Shareholders	869,716		650,353	
Interest to Debentureholders	371,049		236,010	
	1,240,765	16.99	886,363	15.89
To Governments				
Income Tax	1,290,420		828,117	
Financial Value Added Tax	622,936		441,116	
Debits Tax	4,119		3,829	
	1,917,475	26.25	1,273,062	22.82
To Expansion and Growth				
Retained Profit	1,494,524		1,036,258	
Depreciation	299,167		260,347	
Deferred Taxation	(12,700)		(8,900)	
	1,780,991	24.39	1,287,705	23.08
	7,303,379	100.00	5,579,032	100.00

Distribution of Value Added	2005	2004
A To Employees	32%	38%
B To Providers of Capital	17%	16%
C To Government	26%	23%
D To Expansion and Growth	25%	23%



Economic Impact Report

Economic Value Added

Economic Value Added (EVA) is a measure of profitability which takes into consideration the cost of total invested equity.

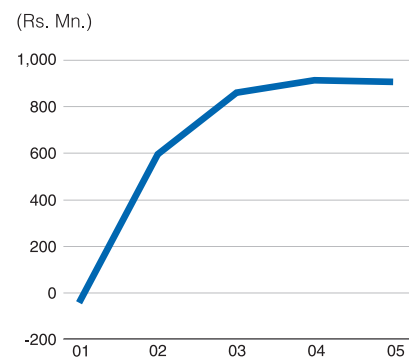
	2005	2004	2003	2002	2001
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Invested Equity					
Shareholders' Funds	13,861,828	12,004,962	9,777,402	6,848,102	5,838,326
Add: Cumulative Loan Loss Provision	2,192,293	2,053,828	1,668,752	1,099,155	765,681
	16,054,121	14,058,790	11,446,154	7,947,257	6,604,007
Earnings					
Profit after Taxation and Dividends on					
Preference Shares	2,133,888	1,454,362	1,287,820	1,086,162	977,033
Add: Loan Losses and Provisions	414,864	699,200	623,207	401,972	236,677
Less: Loan Losses Written Off	(5,011)	(9,138)	(81,588)	(19,550)	(7,913)
	2,543,741	2,144,424	1,829,439	1,468,584	1,205,797
Cost of Equity Based on the 12 months					
Weighted Average Treasury Bill Rate plus					
2% for the Risk Premium	10.87%	9.65%	10.00%	12.00%	20.40%
Cost of Average Equity	1,636,637	1,230,614	969,671	873,076	1,249,273
Economic Value Added	907,104	913,810	859,768	595,508	(43,476)

At Commercial Bank, we are deeply conscious of delivering value to all our stakeholders consistently.

We still remain one of the very few companies in Sri Lanka that has embraced EVA as a measure of performance.

In EVA terms, we have created Rs. 907.104 million during the year 2005 and over Rs. 3.200 billion over the past 5 years.

Economic Value Added



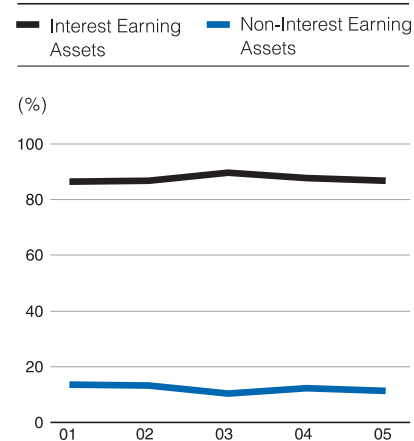
Maturity Analysis

The Assets and Liabilities Committee of the Bank closely monitors the maturities of assets and liabilities of the Bank.

A summary of the maturity pattern of the respective assets and liabilities of the Bank as at December 31, is as follows:

Item	Maturity Period					Total 2005	Total 2004
	Up to 3 months	3 - 12 months	1 - 3 years	3 - 5 years	Over 5 years		
Interest Earning Assets	85,971,100	26,332,096	28,471,737	9,762,679	9,480,997	160,018,609	121,692,554
Non-Interest Earning Assets	13,006,729	1,538,001	88,715	48,938	5,376,471	20,058,854	16,780,831
Total Assets	98,977,829	27,870,097	28,560,452	9,811,617	14,857,468	180,077,463	138,473,385
Interest Bearing Liabilities	98,608,693	24,562,543	11,574,116	3,664,298	4,852,774	143,262,424	106,150,385
Non-Interest Bearing Liabilities	20,324,756	1,402,755	1,000,000	225,700	13,861,828	36,815,039	32,323,000
Total Liabilities	118,933,449	25,965,298	12,574,116	3,889,998	18,714,602	180,077,463	138,473,385
Maturity Gap	(19,955,620)	1,904,799	15,986,336	5,921,619	(3,857,134)		
Cumulative Gap	(19,955,620)	(18,050,821)	(2,064,485)	3,857,134	-		

Asset Mix



Knowledge Management Report

Acquiring, Enhancing, Diffusing and Anchoring Knowledge

The manner in which we have managed knowledge within the institution has played an important role in maintaining our position as the No. 1 Bank in Sri Lanka. The way in which the Bank has blended its human resources, with its systems, processes, know-how,

experience and organisational culture has helped us in holding true to our mission of delivering optimum value to all our stakeholders. In this part of the report we document some of the Bank's knowledge management strategies over the past year.

The focus on knowledge management in this year's report is part of our broader strategy of presenting to our shareholders the less tangible facets of the Bank's operations and performance. It is part of our objective of reporting on the 'whole' of the Company's performance and not just its financial performance.



First Sri Lankan bank to acquire a Foreign Bank's branches outside the shores of Sri Lanka

Some years ago, we pioneered 'triple bottom line' reporting in this country and have now for many years been reporting on how our operations have created larger social wealth for the community in addition to financial value for our shareholders. This year we are documenting, in some detail, how we make strategic use of one of our most important, yet hidden, assets: knowledge in the creation of value. This knowledge analysis is in pursuit of our larger goal of ensuring enhanced transparency in all aspects of the Bank's operations.

Managing the Bank's knowledge effectively and making the best use of this in the market-place has helped the Bank retain its competitive edge. The financial balance sheet provides only a partial picture of a company's performance and potential. The book value of a company represents just a small part of a company's value. Knowledge is a key dimension of every

product, marketing strategy, innovation, initiative, corporate plan and budget and personal career plan and the effective management of this will ensure that the Bank retains its position as the market leader.

With a view to correcting the imbalance in 'traditional reporting' we are reporting this year on many of the 'intangibles' that impact on the Bank's performance and potential. In this section, we assess how the Bank's intelligence powers its performance and marks its potential. We assess how the Bank is managing and harnessing what is arguably its most precious asset: the invisible 'knowledge' asset.

This is the maiden Knowledge Management Report of the Bank. We have chosen to start from scratch by defining 'Knowledge Capital' rather than assuming that all our shareholders are familiar with the concept. In this report,

we have developed a framework and a set of indicators to assess and compare the Bank's competitiveness and potential and to monitor the Bank's compliance with its Knowledge Goals. In the coming years, we will hone and refine this framework of analysis and work on sharpening our indicators in our goal of presenting an accurate assessment of the Bank's performance and potential.

In today's world, knowledge is seen as the driving force of wealth creation: both financial and social. The publication of the maiden Knowledge Management Report is a reflection of the times we live in: human intellect and imagination are being given due recognition and value in the corporate world.



KNOWLEDGE BASED CAPITAL	BUSINESS PROCESSES	RANGE OF SERVICES
<p>• Human Capital</p>	<p>Deposits Management</p> <hr/> <p>Loans Management</p> <hr/> <p>Asset & Liability Management</p> <hr/> <p>Channel Development</p> <hr/> <p>Operations Management</p> <hr/> <p>Risk Management</p> <hr/> <p>Data Management</p> <hr/> <p>Capacity Building</p>	<p>Accepting Deposits</p> <p>Corporate and Retail Credit</p> <p>Project Financing</p> <p>Leasing</p> <p>Personal loans</p> <p>Trade Financing</p> <p>Travel Related Services</p> <p>Issuing of Local and international Credit Cards</p> <p>Tele Banking Facilities</p> <p>Internet Banking</p> <p>Bullion Trading</p> <p>Export & Domestic Factoring</p> <p>Dealing in Government Securities</p> <p>Inward and Outward Remittance Services</p> <p>ATM Services</p> <p>Advisory Services</p> <p>Securitisations</p> <p>IPO Management</p> <p>Structuring Corporate Debts</p>
<p>• Structural Capital</p>	<p>Human Resource Management</p> <hr/> <p>Corporate Planning & Budgeting</p> <hr/> <p>Financial Management</p> <hr/> <p>Marketing Management</p>	<p>Sponsor of the Colombo Stock Exchange</p> <p>Bancassurance</p> <p>Salary Remittance Package</p> <p>Priority Banking</p> <p>Holiday Banking</p> <p>Re-loading Mobile Phone Cards</p> <p>Foreign Currency Swaps</p> <p>Interest Rate Swaps</p> <p>Foreign Exchange Dealings</p>

• **MISSION STATEMENT**

• **KNOWLEDGE GOALS**

• **STRATEGY 2005 - 2010**

What is Knowledge Capital?

Knowledge capital consists of the intangibles of a company's business: customer relationships, business practices, know-how, technical infrastructure, corporate culture, work ethics and the other soft factors that create value.

Knowledge capital is often sub-divided into two: human capital and structural capital. Human capital or 'walking capital' consists of the skills and experiences of employees, business routines, work ethics and organisational culture and factors that 'leave' everyday when employees step out of the organisation. It consists of the skills, capabilities, attitudes, mindsets and emotions of employees.

Structural capital consists of those intangible assets that are relatively 'fixed' to the organisation and include the Bank's software, databases, brands, customers, patents, product portfolios and so on. It consists of the capabilities, competencies, orientation, emphasis and focus of the organisation that endures and grows beyond the lifetime of the stakeholders. Many organisations in today's world try to 'decant' human capital into structural capital so as to retain it within the control and purview of the company concerned.

Any smart knowledge management strategy will have to focus on generating value through knowledge in products,

processes and people. Smart and intelligent products draw new customers and pander to existing customers; smart processes extract optimum levels of performance from all levels of the staff and enable the Bank to make best use of its already existing knowledge; and smart people make intelligent use of processes to build value for customers, shareholders, their families and the larger society. At the same time, every institution's knowledge development strategy must harmonise with its overall business development strategy. It is through a synchronisation of these two strategies that an institution achieves optimum value.

Knowledge management strategies must enable institutions to scan the political and social landscape and digest changes that occur in those areas, whether they be caused by electoral shifts, natural disasters or societal dynamics. Analysing competitor trends and market intelligence is an intrinsic part of knowledge management strategies. The Bank's knowledge management strategy combines these diverse goals.

Our Knowledge Goals

The Bank's Mission is to deliver optimum value to our customers, employees, shareholders and the nation and our knowledge goals stem from this mission.

Integrity

Integrity is the essence of any corporate entity, more so in the case of a financial institution. Ensuring transparency at all levels of our operations and communicating this through an effective information policy is a part of all our processes. Transparency enhances public confidence and public confidence is vital if we are to build value for all our stakeholders.

Integrity also means strict compliance with the regulatory framework, even in those cases where we disagree with the applicable regulations. The challenge of delivering optimum value means working within a regulatory environment that may not always be favourable to the Bank. This is a challenge and a challenge we have taken on readily.

Effectiveness

Like integrity effectiveness needs to pervade all aspects of our operations. Our systems, our software, our corporate culture, our work environment all need to be efficacious.

Passion

Optimism needs to pervade both management and staff and ideally the entire organisation needs to ring loud with optimism.

Optimism is a sine qua non for passion. Unless we approach our work with passion, work ends up being routine and monotonous with negative

consequences for building value among our stakeholders. Our goal is to infuse passion into our products, our service delivery and consequently to our customers and the nation.

Being optimistic and passionate means little without the requisite knowledge and skills. In the absence of the required competence, optimism and passion are hard to sustain and therefore competence is a core value we pursue for all our staff.

Innovation

Without flair, value generation on a continuing basis would be difficult. The capacity to dream, the capacity to convert some of these dreams to tangible value, the capacity to adapt, the capacity to change gear unexpectedly are also some of the knowledge goals we are constantly pursuing.

Entrepreneurship can flourish without innovation. But real entrepreneurship is entrepreneurship that endures beyond personalities and an age, a value that history marks, a value that makes a real difference in the lives of customers, shareholders, employees and the society. This entrepreneurship requires innovation, flexibility and smart thinking.

Leadership

Over the last decade, Commercial Bank has emerged as the No. 1 Bank in the country, an acknowledgement that the Bank does things differently. We will strive through our knowledge

management strategy to foster this sense of leadership and to deliver to all our stakeholders who have driven us to this premier position.

Concern

Without feeling, only limited value could be generated for the stakeholders. Concern and respect create the cocoon within which everything else hangs. It gives our effort direction and a purpose. It is not just building optimum value for the sake of building value but building value because we realise that our activities can make a difference, can make a change and provide new opportunities and new dreams for people.

Concern drives us, it is the pivot on which we seek to hang our processes, our IT and everything else.

Human Capital

Our Common Purpose

In 2005, the Commercial Bank strived to ensure a happy and committed staff. Commitment, passion and morale are vital if customer service levels are to be progressively improved.

The three main Employee Associations - the Executive Officers' Association, the Staff Association and the Ceylon Bank Employees' Union continued to interact and build a spirit of cooperation and commonality of purpose. The Management has monthly meetings and regular discussions with these employee organisations to resolve outstanding issues and foster relationships.

One of the most important success factors of our Bank is the way its employees work towards achieving their goals and objectives. In this context, the performance appraisal system of the Bank is geared to enhance staff performance and thereby improve customer satisfaction. The principle of 'Management by Objectives' is enshrined in our performance appraisal system. The performance of each member of the executive staff is reviewed periodically against his or her objectives and goals which are well defined at the beginning of the year. Rewards are made commensurate with Bank performance and individual performance.

In 2005, we embarked on a new project to have a systematic approach towards succession planning. The new approach based on the concept of 360° leadership and management assessment, targeted the top level of the Bank. Dr. T. V. Rao Learning Centre, India, worked with the Bank to launch the project within the Bank.

The Bank also encourages job rotation, which provides new opportunities to all the staff. The scope of this exercise goes beyond value addition and provides an opportunity to the Bank to challenge its existing processes and to find new ways of doing things.

Over the years, we have progressively outsourced a number of Bank functions, the rewards of which have been satisfying. In 2005, 17 tailor-made programmes were held for our outsourced staff.

involving a total of 617 participants. We will continually strive to look into their welfare through their employers.

In 2006 too, your Bank will continue to explore synergistic combinations involving the creative capacities of its human resources and its data and information processing capacities, with a view to achieving even higher levels of customer care. The Bank is confident of realising desired outcomes through this endeavour.

Staff Perceptions

In 2005, the Bank carried out an 'Employee Survey' to find out 'what the

staff think'. The survey covered a variety of aspects of an employee's work environment from workload and benefits to recognition and acceptance.

This is in keeping with the goal of constantly enhancing the work environment for staff and building optimum value for our staff. The survey was based on a model that was developed to identify specific factors that determine the commitment of employees. Through a tabulation and analysis of the data, the survey sought to analyse the existing work culture and the potential for enhancing the performance based work ethics of the organisation.

Developing Keen Knowledge Sharing Relationships

Knowledge must flow through an institution like hyper ventilated blood. The diffusion of knowledge and mutually productive knowledge relationships promote a greater coherence of outlook, reduce wastage and produce stronger employee motivation. Where employee, shareholder and citizen are connected in a strong web of productive relationships, the tendency towards the optimisation of financial and social value is greater.



A number of events were held over 2005 to foster a sense of belongingness and interdependence among our staff. These activities included the annual Christmas Party and Staff Sports Tournaments in cricket, netball, football, rugby, badminton, hockey etc. We continue to strengthen the 'One Bank One Family' concept.

Best People Productivity Ratios among peer banks

Human Resource Accounting

The Lev & Schwartz model has been used to compute the value of the Bank's human resource as at December 31, 2005.

The Human Resource Valuation is based on the following assumptions:

- o All the existing employees will continue in employment up to retirement.
- o Employee remuneration includes all direct and indirect benefits earned by them.
- o Annual increment is granted at 10%-12% p.a. on average.
- o Total future remuneration of all the employees for each year is discounted to the present value at 10.87%.

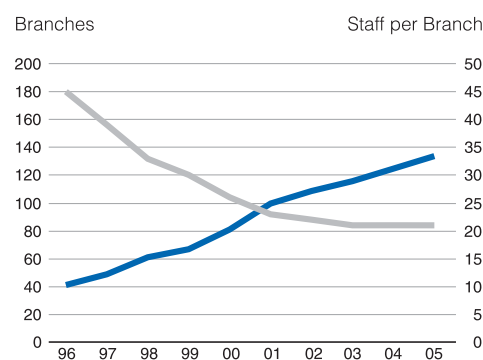
Commercial Bank continues to maintain the leading position in terms of people productivity. This is confirmed by the following indicators:

	2005	2004	2003	2002	2001
Staff per branch	22	22	22	22	23
Income per employee (Rs. '000)	5,082	4,293	3,799	3,486	3,631
Profit before tax per employee (Rs.'000)	1,150	875	739	636	587
Assets per employee (Rs. '000)	56,843	48,367	41,646	30,576	26,160

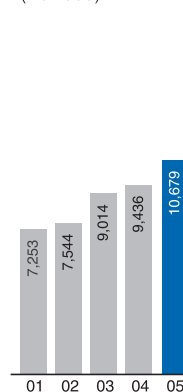
Year	No. of Employees	Total Value of Human Resource Rs. '000	Value of Human Resource per Employee Rs. '000
2005	3,168	33,830,883	10,679
2004	2,863	27,014,491	9,436
2003	2,648	23,867,760	9,014
2002	2,399	18,098,299	7,544
2001	2,259	16,383,868	7,253

No. of Branches & No. of Staff per Branch

— No. of Branches
— No. of Staff per Branch



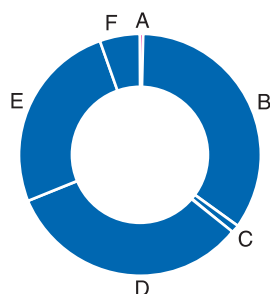
Value of Human Resource per Employee (Rs. '000)



Knowledge Management Report

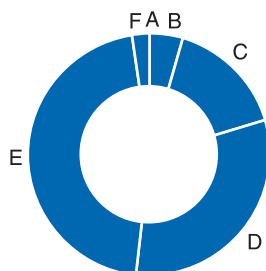
Staff Strength - 2005

A (CM) - 0.5%	B (EO) - 34.5%
C (EA) - 2.0%	D (JEA) - 31.8%
E (BT) - 25.9%	F (OA) - 5.3%



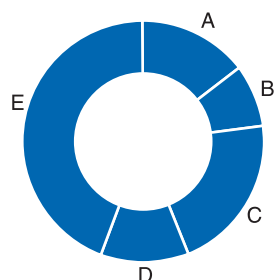
Age Analysis (Years) - 2005

A Above 60 years - 0.1%	B 51-60 years - 4.5%
C 41-50 years - 16.0%	D 31-40 years - 30.9%
E 21-30 years - 45.9%	F 20 & below - 2.6%



Service Analysis (Years) - 2005

A Above 20 years - 15.2%	B 16-20 years - 8.6%
C 11-15 years - 20.3%	D 6-10 years - 11.8%
E 5 years & below - 44.1%	



Staff Strength

As at December 31,	2005	2004	2003	2002	2001
Corporate Management (CM)	15	15	14	14	14
Executive Officers* (EO)	1,093	1,001	918	787	715
Executive Assistants and Allied (EA)	66	53	62	23	30
Junior Executive Assistants and Allied (JEA)	1,008	942	798	813	905
Banking Trainees (BT)	819	677	672	574	402
Office Assistants and Others (OA)	167	175	184	188	193
Total	3,168	2,863	2,648	2,399	2,259

Age Analysis of the Staff as at December 31,

Age Group (Years)	Corporate Mgt.	*Executive Officers	Executive Assistants & Allied	Jr. Exe. Assistants & Allied	Banking Trainees	Office Asst. & Others	2005 Total	2004 Total
Above 60	-	2	-	-	-	-	2	4
51 - 60	11	93	2	14	-	24	144	110
41 - 50	4	275	28	116	-	84	507	482
31 - 40	-	569	19	338	1	53	980	982
21 - 30	-	154	17	540	736	6	1,453	1,234
20 & below	-	-	-	-	82	-	82	51
Total	15	1,093	66	1,008	819	167	3,168	2,863

Average age of the employees as at December 31, 2005 was 32.3 years (2004 - 33.3 years)

Service Analysis of the Staff as at December 31,

Service Group (Years)	Corporate Mgt.	*Executive Officers	Executive Assistants & Allied	Jr. Exe. Assistants & Allied	Banking Trainees	Office Asst. & Others	2005 Total	2004 Total
Above 20	11	295	13	80	-	83	482	434
16 - 20	-	165	14	66	-	26	271	263
11 - 15	1	361	9	223	-	51	645	596
6 - 10	1	183	7	175	-	7	373	461
5 & below	2	89	23	464	819	-	1,397	1,109
Total	15	1,093	66	1,008	819	167	3,168	2,863

Average service of the employees as at December 31, 2005- was 10.0 years (2004 - 10.1 years)

The service of the employees absorbed from Eastern Bank Ltd. and Mercantile Bank Ltd. is also included.

* Inclusive of Management Trainees, Confidential Secretaries and Employees on Contract.

An important component of our knowledge management strategy is making optimum use of existing information and best practices within the Bank. Knowledge that has already been generated needs to be put to best use without re-inventing the wheel. The management of information is a crucial part of any effective knowledge management strategy. A good dissemination strategy and a

communication strategy coupled with state-of-the-art information solutions such as data mining, decision support tools, document management and workflow management are vital.

Our processes are designed to facilitate effective information management through a synergistic blend of our human resources with our IT systems. One of our goals is to promote a better flow of

information through better interaction among all divisions and units and to facilitate swift access to information.

Last year our staff had access to well maintained databases and other types of information made available through the Bank's Intranet. Management updates and management briefings were a regular feature and team-based interactions were proactively encouraged.



Introduced first ever Mobile ATM in Sri Lanka

Through these processes the collective wealth of the Bank is enhanced enabling the provision of superior options to our customers.

Open and vibrant communication channels were maintained to address staff related issues which helped our staff to balance organisational demands with home and family obligations. With a view to fostering greater interaction between the human resource team and the rest of our staff, we introduced a matrix structure delegating responsibilities to the members of the human resource team to function as key facilitators and provide efficient HR services to divisions, clusters of divisions or regions and to the rapidly expanding branch network. We believe this arrangement will greatly enhance the process of delivering our HR services to all levels of operations of the Bank. Through the social and sporting activities the Bank has also provided opportunities to share information and exchange best practices.

Our 'Central Library' located in the Head Office now boasts of a collection of over 6,000 books on a wide range of topics. Apart from books, the library also subscribes to over 25 journals and periodicals. Video screenings are held at our Head Office Library on a monthly basis, on a wide range of topics ranging from management skills and IT to nature and geography. Two book exhibitions were hosted at our Head Office in 2005 to foster the habit of 'reading' amongst our staff.

The Bank's periodic 'in-house' publication, 'Compulse', continues to disseminate information on Bank's activities and events and provides space for creative contributions from the staff.

Innovation Capital

Fanning Flair

Innovation marks the difference between two companies. The capacity to innovate differentiates between sustainable capital and limited capital. Our success over the past few years has been driven to a large extent by our capacity to innovate and think 'out of the box'. During 2005, we continued with this strategy in our efforts to build value for our stakeholders and to promote a culture of curiosity, innovation and learning.

Innovation combines a number of different processes. It requires an ability to access existing sources of information and 'know-how' within the Bank. It requires the capacity to think afresh and anew. It requires the skills to

adapt technical infrastructure and 'know-how' to the ideas generated. It also requires a capacity to comprehend and understand the knowledge generated by our stakeholders: our customers, shareholders, employees and their families and the society.

The first step in any process of innovation is no doubt the generation of creative ideas. But beyond this lies the challenge of converting these ideas into intelligent products and processes and the task of ensuring that this leads to enhanced performance and greater wealth all round. In 2005, we focused on refining our existing processes to both promote creativity and to convert this creativity into products and sustainable value for the Bank.

One of the results of these processes was the launch of a Mobile ATM, another first for the Bank. This Mobile ATM enables customers to perform a variety of banking operations in a flexible manner. The ATM uses GPRS technology to connect and in this initiative we partnered with Dialog GSM.



*Breaking all barriers...
Time and location are no longer constraints for the first ever mobile ATM in the country*

Mobile ATMs can be positioned when regular ATMs breakdown. They can also be stationed at carnivals, exhibitions, trade fairs and sporting events where people congregate and unexpectedly need banking services and products.

The Bank has the largest network of ATMs in the country. The concept of a mobile ATM has added a whole new dimension to this state-of-the-art network.

Our 'e-Exchange' money transfer facility permits the transfer of money to Sri Lanka in a matter of minutes. For a small fee, Sri Lankans employed abroad and others can remit money to their families and friends in Sri Lanka with ease. Several withdrawal options are available for their families here, even if they do not bank with Commercial Bank.

Last year the Bank introduced 'Holiday Banking' - through its Dhanmondi Branch in Bangladesh. The Commercial Bank was the first bank to introduce this concept to Sri Lanka and becomes the first bank to introduce it in Bangladesh.

In Sri Lanka, the Bank extended its Holiday Banking facility to its branch in Negombo. The Negombo Branch is now open 365 days of the year from 10 a.m. to 2.30 p.m. The Negombo Branch becomes the 15th holiday banking outlet in the Bank's network, some of which are open everyday till 7.30 p.m.

In 2005, the Bank pioneered the Com-Leap Savings Account. The Com-Leap tiered Savings Account links interest rates in proportion to the balance maintained in the account. Thus, balances of between Rs. 100,001 and Rs. 500,000 earn 0.5 per cent more than the normal savings rate; balances between Rs. 500,001 and Rs. 1,000,000 earn 1 per cent more; while those customers with balances in the range of Rs. 1-2 million earn 1.5 per cent more than the normal rate and above Rs. 2.0 million balances earn 2 per cent more.

This product is aimed specifically at interest-sensitive customers who tend to shift funds between savings, term and fixed deposits even between different banks in order to maximise their return. These investors often lose through interest penalties, debit taxes and other hidden charges. Under the Com-Leap Account they are able to make maximum use of their investment, save time and get the best return without any restriction on withdrawals.

The Bank's 24-hour payment facility is also aimed at enhancing customer comfort and flexibility. Now the payment of customer bills with regard to fixed line telephones, mobile phones, insurance premia, credit card balances, utility bills and cable TV, is available 24 hours a day, 365 days of the year, at any of the Bank's ATMs.

Last year, we entered into a partnership with Prime Bank in Bangladesh that allows Commercial Bank customers in Bangladesh to use all of the Prime Bank branches for cash management services.

We are proud to have pioneered banking facilities especially for the 'differently-abled' in this country. Those with physical disabilities have struggled with insensitive architectural designs in many areas of social and public life.

Last year Asiri Dilshan de Silva won a National Science Foundation award. The award was given to Asiri - who works at the Wellawatte Branch of the Commercial Bank - for his invention of a detector to check forged currency notes and documents. Asiri's invention can help to check the authenticity of foreign currency notes and other documents such as visas, passports, credit cards and debit cards. The entire Bank family sips vicariously from Asiri's joy.

Pioneered the “Supermarket” Banking Concept in Sri Lanka

Our Reid Avenue Branch has special ramps and other friendly designs that facilitate them convenient access to the Bank.

All these products were developed through a close reading of customer knowledge. Customer knowledge is one of the most important intangible assets a company has. Being able to read and understand customer needs through strong relationships and to develop mutually beneficial products and services is an essential part of our knowledge strategy. The ‘tacit’ knowledge of a customer is expressed in different ways and forms and capturing it is one of our most difficult challenges. This however, is very much a part of our knowledge development strategy. How do we empower our staff to develop productive relationships with our customers, forge supportive processes and use knowledge to deliver enhanced value and better performance? Understanding often inarticulate customer needs, meeting unmet needs, and then dovetailing this with the new opportunities these needs present is a challenge that stretches the capacities of our staff everyday.

The knowledge our other stakeholders have is also important. Our shareholders, the families of our employees and larger society are constantly throwing new ideas at us. The Bank’s challenge is to leverage this knowledge in the pursuit of our overall mission.

Customer Capital

Building Enduring Relationships

Our customer base is one of the Bank’s strongest assets. The ability to read customer needs, the capacity to forge strong and enduring customer relationships and the facility to be able to respond swiftly to customer demands are all important in any area of commercial activity, but more so in the area of financial services.

Our customer capital is reflected in our growing customer base and in the products we have designed to cater to customers needs. Our branch network has continued to grow and by the end of 2005 we had 134 branches in all geographical regions of the country. In Bangladesh too, we

have progressively begun to enhance our reach through new branches and through banking agreements with other financial institutions.

We have issued over 1.0 million ATM cards to the Sri Lankan customers and our network of ATMs has grown. We are constantly reviewing the locations of these ATMs and upgrading the technology. The number of Internet customers continues to grow. Internet banking is a win-win situation for both the Bank and the Customer. Bank’s costs are reduced and the customer has the facility of accessing the Bank at any time of the day.

Our customer capital is also reflected in the brand we have built: a financial institution that is customer focused, customer driven and is bent using new technology to further customer satisfaction.

Balancing Conformance and Performance

Enterprise Governance is the combination of Business Governance and Corporate Governance to ensure that strategic goals are aligned and good management is achieved which would lead to corporate success and value creation.

The framework * below illustrates the reach of Enterprise Governance as it constitutes the entire accountability framework of an organisation.

At Commercial Bank we are firmly committed to the highest standards of

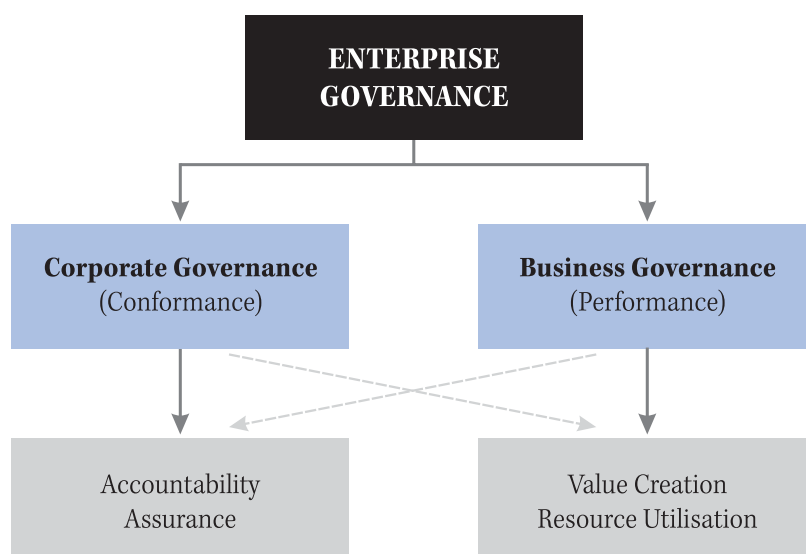
governance. As your representatives, the Board of Directors ensures that the activities of the Bank are always conducted with the highest ethical standards and in the best interests of all its stakeholders. The Board of Directors continues to ensure that the Bank conducts itself as a model corporate citizen by specifying corporate values for the Bank and stipulating a code of conduct/ethics for the employees ensuring that the employees maintain their dignity and integrity, building customer confidence in the Bank.

There are several Board sub-committees, each with a defined scope of work and terms of reference. These committees are responsible for providing independent and expert advice to the Board on the subjects assigned.

The Board sub-committee on Corporate Planning provides guidance on the formulation of the Bank's Corporate Plan. In addition, all the members of the Board of Directors deliberate on the Corporate Plan and the Budget at special Board Meetings. This process helps the Board to focus on strategic direction and to identify its implications for all areas of the business. Implementation of strategy and its ongoing relevance and success is then assessed on a regular basis.

The Bank has complied with the majority of the good corporate governance practices recommended by The Institute of Chartered Accountants of Sri Lanka and the Central Bank of Sri Lanka. The table given below demonstrates the manner and extent to which the Bank adheres to them.

The performance aspect of Enterprise Governance is dealt in the Management Discussion & Analysis and Risk Management chapters of the Annual Report.



* Courtesy: IFAC

Corporate Governance Principle	Manner and Extent of Adherence
Directors	
Board	
Composition of the Board	Board comprises of eight Non-Executive Directors of whom three are nominee Directors and one Executive Director who is the Chief Executive Officer. They encompass a range of talents, skills and expertise required to provide sound and prudent guidance with respect to the operations and interests of the Bank
Holding of regular Board meetings	Regular Board meetings are held monthly while special Board meetings are convened whenever necessary. In addition, there are several Board sub-committees, details of which are given on page 56
Availability of formal schedule of matters specifically reserved to the decision making of the Board	Board is responsible for: <ul style="list-style-type: none"> ● Ensuring satisfactory performance as representatives of the shareholders ● Formulation of policies and strategies and monitoring successful implementation thereof ● Appointment of the CEO, approving the organisational structure and planning for succession of Corporate Management ● Ensuring the implementation of an effective internal control system ● Ensuring compliance with highest ethical and legal standards ● Ensuring that a proper risk management system is in place ● Approval of credit facilities beyond the delegated authority of the Executive Credit Committee ● Deciding on major capital investments on acquisitions and expansions ● Approval of the budget and the corporate plan ● Approval of annual and interim financial statements for publication
Procedure for the Directors to obtain independent professional advice	Board sub-committees advise the Board on various matters under their purview. In addition, the Board obtains independent professional advice from external sources whenever the Board deems it necessary
Company Secretary	An Attorney-at-Law functions as the Secretary of the Board. She ensures that proper Board procedures are followed and that applicable rules and regulations are adhered to. She minutes all the proceedings at the Board meetings under the supervision of the Chairman who signs the minutes at the subsequent meeting
Independent judgement	Directors are committed to add value and bring independent judgement to bear on the decision making process of the Bank, and to carry out their duties free from any undue influence or control of other parties
Dedication of adequate time and effort to matters of the Board and the Company	Board dedicates adequate time to the matters of the Board and the Bank. In addition to attending the regular monthly Board as well as Board sub-committees meetings, matters are also referred to them by circulation
Training for the Directors	Advice is sought from independent experts and presentations are made to the Board whenever major changes affecting the banking industry are announced
Chairman and CEO	
Clear division of responsibilities in running the Board and executive responsibilities of running the Bank's business	Positions of the Chairman and the CEO are separated, thereby preventing unfettered powers for decision making in one person. Chairman is a Non-Executive Director while the CEO is an Executive Director
Presence of a strong and independent non-executive element on the Board	Majority of the Directors are Non-Executive independent Directors

Corporate Governance Principle	Manner and Extent of Adherence
Chairman's Role	
Conducting Board proceedings in a proper manner	Chairman conducts Board meetings ensuring effective participation of all the Directors, heeding to their concerns and maintaining the balance of power. The Board is in full control of the Bank's affairs
Financial Acumen	
Financial acumen of the Board	There are three senior Chartered Accountants, one Chartered Management Accountant and one Chartered Financial Analyst in the Board who offer guidance on matters relating to finance
Board Balance	
Balance of the Board	Majority of the Directors are Non-Executive independent Directors. The Banking Act No. 30 of 1988 prior to the amendments in 2005 had provisions restricting employees of a bank other than the CEO being appointed as Directors of that bank. However, the amendments to the Banking Act in 2005 provide for up to one-third of the Board members to be appointed from employees as Executive Directors. At present, only the CEO is in the Board as an Executive Director. The Board believes that the combined knowledge and experience of the Board matches the strategic demands facing the Bank
Supply of Information	
Availability of quality management information	A well-streamlined Management Information System is in place. Accurate and relevant information relating to matters referred to the members of the Board are made available to them well in advance. Whenever, the Board finds that the information made available to them for a decision is insufficient, they call for additional information and the Chairman ensures that all Directors are properly briefed on the matters deliberated on at the meetings
Appointments to the Board	
Availability of a Nomination Committee for making recommendations on all new Board appointments	The Bank does not have a Nomination Committee for making recommendations on appointments to the Board. The CEO is appointed by the Board. In terms of the Articles of Association, each shareholder holding a block of shares representing 12% of the Bank's issued voting share capital is entitled to appoint a Director, subject to a maximum of two Directors, provided that the shareholder has obtained the prior approval of the Monetary Board of the Central Bank for the shareholding and consent of the Board of Directors of the Bank for nominating rights, which may or may not be given at the sole discretion of the Board. Accordingly, two major shareholders viz. the DFCC Bank and the IFC have the right to appoint two Directors and one Director, respectively (nominee Directors). Appointment of any other new Director is made with the consent of all the Directors and such new Director retire by rotation at the first opportunity after his appointment and offer himself for re-election.
Disclosure of details of new Directors to shareholders	Details of new Directors are made available to the shareholders on their appointment. Prior notice on appointment of new Directors is given to the Director of Bank Supervision
Re-election	
Re-election of Directors	Except for the CEO and the three nominee Directors, the Memorandum and Articles of Association provide for one-third of the remaining Directors to retire by rotation each year. They are however, eligible to be reappointed by the shareholders at the Annual General Meeting. Though the nominee Directors are not subject to retire by rotation, the Board is entitled to remove any such Director, if they are of the opinion that such removal is in the best interest of the Bank provided that the shareholder concerned is entitled to nominate another person as the nominee Director. The profiles of all the Directors are given on page 12 of the Annual Report

Corporate Governance Principle	Manner and Extent of Adherence
Appraisal of Board Performance	
Appraisal of Board performance	<p>The Board has implemented a self-assessment exercise covering key functions under the following activities to assess the performance of the Board and carries out the evaluations annually:</p> <ul style="list-style-type: none"> ● Discharge of statutory/regulatory duties and Board responsibilities ● Corporate Governance and Risk Management monitoring ● Seeking and contributing views and opinions on strategic decision making ● Leveraging the skills, expertise, contacts of individual Board members in furtherance of business ● Understanding the compensation philosophy - “to retain and motivate staff in a manner appropriate for the business” ● Understanding the succession plans to ensure comprehensive staff succession - “to ensure talent availability and address expectations of high potential and high quality staff” ● Overall view of Management of the business by the Board of Management <p>Non-Audit Committee Board members assess the performance of the Board Audit Committee</p>
Appraisal of the CEO	
Appraisal of the CEO	<p>The Board sets financial and non-financial goals and objectives for the CEO in line with the short, medium and long term goals of the Bank and has delegated appropriate authority to the Management to implement strategic objectives of the Bank. The CEO is entrusted with the management of the Bank’s operations and he is fully accountable to the Board. The main corporate goals and objectives emanating from the Bank’s Corporate Plan and the Budget are incorporated as personal goals of the CEO, whose performance is assessed by the Chairman annually and the assessment is ratified by the Board</p>
Directors’ Remuneration	
Remuneration Procedure	
Policy for Directors’ Remuneration	<p>Based on the performance appraisal, the remuneration package of the CEO is determined by the Board. The remuneration package of the other Directors is determined in accordance with the international practices</p>
Level and Make Up of Remuneration	
Determination of the level of remuneration of both Executive and Non-Executive Directors	<p>A sufficiently attractive remuneration package is offered to both the CEO and the Non-Executive Directors in order to attract and retain them. With the approval of the Shareholders, the Bank established an Employee Share Option Scheme in 2002 for the benefit of its senior executives, under which options are offered over a period of four years at the rate of 1.25% of the issued voting share capital. The CEO is entitled for options. The eligibility and the number of options allotted are based on the Bank’s overall performance and the achievement of individual targets. The prices of the options are determined at the average market prices of the voting shares during the last three months of each year. Non-Executive Directors are not eligible for options under this ESOP</p>
Disclosure of Remuneration	
Disclosure of remuneration to the Board as a whole and statement in the Annual Report on the policy adopted in remuneration	<p>The remuneration of the CEO and the Non-Executive Directors is disclosed in the Annual Report</p>

Corporate Governance Principle	Manner and Extent of Adherence
Relationships with Shareholders	
Constructive use of the General Meetings	
Building up relationships with shareholders	The Bank always welcomes active participation of the shareholders at the General Meetings and solicits their views at all times, thus promoting a healthy dialogue. Whenever possible, the Bank implements their suggestions.
Making available the Notice of Meeting, related documents and a summary of the procedures governing voting at the general meetings	21 clean days notice is given to the shareholders in terms of the provisions in the Companies Act and the Memorandum of Association of the Bank. A summary of the procedures governing voting at the general meetings is given in the Proxy Form
Enhancing shareholder value	The market capitalisation of the Bank's shares stood at Rs. 18,460 million, as at December 31, 2005, an increase of 71% compared to the previous year end. A scrip issue of 1 : 1 was made in June 2005. A dividend of 45% has been proposed for 2005 on the enhanced share capital. These bear ample testimony to the Bank's concerted efforts at enhancing shareholder value
Major Transactions	
Disclosure of major transactions and their impact on the consolidated net assets of the Company	Done where relevant. During the year 2005, there were no such major transactions that materially affected the Bank's net assets base
Disclosure to the shareholders if the value of a major transaction exceeds half the value of the Company's net assets or that of a subsidiary, which has a material impact on consolidated net assets of the Company, prior to committing for such transaction	Done where relevant. However, the Bank has not engaged nor committed for such transactions in the recent history of the Bank
Accountability and Audit	
Financial Reporting	
Disclosure of an assessment on the position and prospects of the Company	Bank attaches high priority to timely publication of quarterly and annual results with comprehensive details far in excess of the statutory requirements, enabling both existing and prospective shareholders to make a timely and fair assessment of the Bank's performance and prospects and informed decisions. Mediums of publication include printed materials, newspapers and the web site of the Bank. We strictly adhere to the accounting formats and other procedures laid down by the regulatory authorities such as the Central Bank and the Colombo Stock Exchange, in the submission of all periodic returns and other information. Price sensitive information is released to the regulators on a timely basis. The financial statements are prepared in accordance with the Sri Lanka Accounting Standards, which are based on the International Accounting Standards. Therefore, the Bank's financial statements comply with the International Accounting Standards in all material respects

Corporate Governance Principle	Manner and Extent of Adherence
Annual Report should contain a declaration by the Directors	Report of the Directors is given on pages 70 to 74 of this Annual Report
Presenting a statement setting out the responsibilities of the Directors for financial statements and a statement by the Auditors about their reporting responsibilities	The Statement of Directors' Responsibility for Financial Reporting is given on page 75 of this Annual Report Auditors' Report on the financial statements of the Bank for the year ended December 31, 2005 is given on page 77 of this Annual Report
Presenting a Management Report in the Annual Report	This is given under the Management Discussion and Analysis on pages 23 to 30 of this Annual Report
Declaration by the Board as to whether the business is a going concern	This is given in the Directors' Report on page 70 of this Annual Report
Summoning an EGM to notify the shareholders if net assets fall below one half of the shareholders' funds	There have not been such situations in the past. However, should the situation arise, an EGM will be called for and shareholders will be notified
Internal Controls	
Maintaining a sound system of internal controls covering financial, operational, compliance and risk management to safeguard shareholders' investments and the Company's assets	Directors have put in place effective internal control, risk management and compliance systems to ensure that no legal, banking, company, stock exchange and other regulations are violated. A summary of the risk management measures in place at the Bank is given on page 63 of this Report. In addition, preliminary arrangements have already been made to set up an Integrated Risk Management Department to address all major risks faced by the Bank
Reviewing of the effectiveness of internal controls periodically by the Directors and reporting thereon to the shareholders	The effectiveness of the internal control systems is periodically reviewed by the Board Audit Committee and major observations are reported to the Board. It also ensures that effective internal and external audit procedures are in place and these functions are carried out by the Inspection Department, which is ably assisted by five firms of Chartered Accountants approved by the Central Bank of Sri Lanka. The Board reviews the reports arising from the internal and external audits and monitors the progress of the Bank by evaluating the results against the budget and the industry performance

Corporate Governance Principle	Manner and Extent of Adherence
Audit Committee and Auditors	
Availability of an Audit Committee comprising of independent Non-Executive Directors and reporting thereon in the Annual Report	An active Board Audit Committee headed by the Deputy Chairman and represented by three other Non-Executive Directors is in place. The Managing Director attends the meetings by invitation. The Committee met four times during the year. The full report of this Committee including the terms of reference and specific tasks carried out during the year is given on page 76 of this Annual Report
Maintaining appropriate relationships with the External Auditors to ensure their objectivity and independence	Bank maintains appropriate relationships with the External Auditors, M/s. KPMG Ford, Rhodes, Thornton & Co. During the year, provision of non-audit services to the Bank by them was limited to tax consultancy work
Employees/Other Stakeholders	
Rights of Employees/ other Stakeholders	Bank respects the rights of all the stakeholders whether established by law or by mutual agreements. Stakeholders have access to relevant, sufficient and reliable information on a timely and regular basis thus safeguarding the interests of the stakeholders
	Executive staff other than the Corporate Management of the Bank are all members of either the Executive Officers' Association or the Staff Association while non-executive staff are members of the Ceylon Bank Employees' Union. Employees and their representative bodies are given unrestricted access to the Management as well as to the Board to voice their concerns about any illegal or unethical practices without compromising their rights in any way
	Several employee performance-enhancing mechanisms such as performance appraisal, Employee Share Ownership Schemes and training staff locally as well as overseas are in place. Bank periodically conducts employee surveys. The second such survey was conducted in 2005 and the survey results have been made available to members of the staff
	By maintaining Liquid Assets and the Capital Adequacy Ratios comfortably above the minimum statutory requirements and by constantly monitoring the risk profile, the Bank ensures its liquidity and solvency
Corporate Governance	
Disclosure of corporate governance practices adopted in the Bank	<p>In order to further strengthen the good corporate governance practices already in place in the Bank by identifying the latest best practices around the world and implementing them wherever gaps were found, we periodically evaluate our practices vis-à-vis the OECD Principles of Corporate Governance, which is acknowledged world over as an important initiative in this sphere, the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Code of Corporate Governance for Banks and Financial Institutions issued by the Central Bank of Sri Lanka</p> <p>We are happy to note that the majority of the principles and practices recommended in these codes are already in place in the Bank. A few of the practices not found to be in place in the Bank have been identified and corrective actions are being taken. We also believe that the amendments proposed to the Companies Act and the Banking Act will improve the legal infrastructure and the regulatory framework relating to Corporate Governance of the banks</p> <p>We believe that the various accolades conferred on the Bank and the AA+ (sri) rating by Fitch Ratings Lanka Ltd. are, inter alia, an acknowledgement of the good corporate governance practices adopted by the Bank</p> <p>Extent to which the Bank has complied with the Corporate Governance principles is given as above in this report</p>

Enterprise Governance

Board Sub-Committees			
Committee / Composition	No. of Meetings		Scope of the Sub-Committee/Principal Activities carried out during the year
	Held	Attendance	
Audit			Ensuring that a sound financial reporting system is in place in conformity with the rules, regulations and ethical guidelines. Full Report of this Committee detailing the activities undertaken during the year is given on page 76.
J.S. Mather *	4	4	
A.L. Gooneratne	4	4	
Dr. H.S. Wanasinghe	4	4	
B.R.L. Fernando	4	2	
A.N. Fonseka	4	4	
Personnel & Remuneration			Maintaining a market oriented remuneration policy for the Bank's staff, enabling the Bank to attract the best personnel in the market while maintaining a contended staff and making recommendations to the Board on appointments to the Corporate Management and their succession planning Bank obtained the services of M/s. Ernst & Young to conduct a Salary Survey in order to ascertain the market levels of salaries and other remuneration which was taken into consideration in granting salary increases to the Executive staff
M.J.C. Amarasuriya *	2	2	
A.L. Gooneratne	2	2	
Dr. H.S. Wanasinghe	2	2	
L.J.A. Fernando	2	1	
D.S. Weerakkody (Appointed in September 2005)	2	1	
Credit			Formulating the Bank's Credit Policy and monitoring the Bank's Credit Risk. Approving the facilities referred to the Committee within its Delegated Authority. During the year, the Committee did not meet but approved the facility papers by circulation
M.J.C. Amarasuriya *			
A.L. Gooneratne B.R.L. Fernando			
Corporate Planning			Ensuring that a proper planning procedure is in place and striving to promote a target driven culture within the Bank. All the members of the Board deliberated on the Corporate Plan and the Budget 2006-2008 at two special Board meetings held in December 2005
M.J.C. Amarasuriya *			
J.S. Mather			
A.L. Gooneratne			
A.N. Fonseka L.J.A. Fernando			
Pension Reforms			Making recommendations to the Board on pension reforms. During the year, the Committee continued to evaluate several proposals put forward by the Management in this regard and also obtained advice from the Actuary
B.R.L. Fernando *	1	1	
A.L. Gooneratne A.N. Fonseka	1 1	1 1	

* Chairman of the Committee

Enhancing Social Wealth Nourishing Social Values



A Powerful Social Impact

The Bank was among the first Sri Lankan companies to report on the impact that the Bank's activities had on society in general. We pioneered the idea of 'triple bottom line' reporting in 2003, where companies report not just on their financial bottom line but on the impact their activities have on the environment and society in general. Since then, we have every year, allocated space in our Annual Report to record the social impact of the Bank's activities.

Corporate Social Responsibility stems from the idea that corporates must play a role in creating not just economic wealth but social wealth as well. In pursuit of this, companies may do a variety of things such as helping the most disadvantaged in society, preserving the environment, dispensing

humanitarian relief, preserving cultural heritage and nurturing precious social values.

In 2004, we established the "Commercial Bank Social Responsibility Trust" (CBSRT) with a seed contribution of Rs. 25 million. Every year, the Bank adds up to 1% of its profit after tax to the Trust and its activities are overseen by a body of Trustees. The Bank's activities targeting the creation of social wealth are supported by the CBSRT.

This section documents some of the Bank's activities over the past year in creating an enduring social wealth for our people, by adding social value to our nation and empowering the disadvantaged.

Responding to the Tsunami

The tsunami mobilised human solidarity on an unprecedented scale and the Bank played its part in this magnificent humanitarian response. All the staff members contributed a day's pay to set up a Relief Fund and this was used as core funds to reach out in a variety of ways to those who suffered at the hands of nature.

Approximately two and half million rupees was provided to staff who were directly affected by the tsunami from the Bank and the Relief Fund. Close to a million rupees in relief items were distributed to residents in the Ampara, Samanthurai, Galle, Matara, Hambantota and Mullaitivu areas. Books and stationery were distributed to school children in the Hambantota area.



In an effort to contribute towards building Social Capital, many activities were carried out during 2005. Children - the life blood of our nation, featured prominently in these activities.

The Bank partnered with the National Child Protection Authority (NCPA) to raise funds for children who had been affected by the tsunami. The NCPA had formulated an ambitious psycho-social support programme for those children affected by the tsunami. The Bank was the principal sponsor and donated Rs. 500,000/- towards the musical show 'Mahogaya', (මහෝගය) which was held in May 2005 at the BMICH.

The show, at which some leading artistes performed, was an initiative of the Bank staff to raise funds to support this programme. The proceeds of this show were donated to the National Child Protection Authority.

All these activities were coordinated by the Joint Committee of all the Trade Unions of the Bank which was set up soon after the tsunami to spearhead the Bank's tsunami relief effort.

Restoring Tanks

The Bank supported the Government's initiative to restore indigenous wealth and provide a regular supply of water to farmers under the "Dahasak Wew" (දහසක් වැව්) programme.

In 2005, the Bank restored three tanks in the Kurunegala District - Aliyamada Wewa, Lahu Wewa and Nugampola Wewa. Restoration of the fourth tank in the Anuradhapura District - Udahingura Wewa - was completed in January 2006. These tanks will ensure a regular supply of water for agriculture and assist in enhancing production in those areas.

Scholarships for University Students

Last year the Bank set up a scholarship scheme to assist new entrants to universities who are in need of financial assistance. Those who come from low income families are eligible to apply. Initially, 100 scholarships will be provided for selected courses of study and each scholarshipholder will receive Rs. 2,500/- a month towards his or her university expenses. Priority will be given to orphans and those from single parent families.

Recipients of these scholarships will be selected with the help of the University Grants Commission.

Bonus for Year 5 Scholarship Winners

Children holding 'Arunalu' savings accounts with the Commercial Bank and who were among the top 3 in their respective schools at the Year 5 Scholarship Examination were given cash prizes amounting to Rs. 1,350,000/- by the Bank. Under this scheme, cash prizes of Rs. 10,000/-, Rs. 7,500/- and Rs. 5,000/- were paid for those placed first, second and third in each school, respectively.

The objective was to reward educational excellence and cultivate the 'savings' habit among those children having accounts with the Bank.

Improving Safety and Health at Work

A booklet on 'Occupational Safety and Health at Work' was sponsored by the Bank and released last year. The booklet, which is in English, is aimed at creating awareness on some common issues in relation to safety and health in the workplace.

The booklet approaches the subject from a practical standpoint and deals with some of the physical, chemical, biological, ergonomical and psycho-social hazards encountered in offices, factories and other places of work.

The booklet was launched by the Industrial Safety and Health Association (ISHA) which is a tripartite body consisting of employer representatives, employee representatives and representatives from the state. The Bank expects the booklet to be widely used in educational and other programmes surrounding workplace health and safety and was another contribution from the Bank towards creating safer and more productive workplaces.

Honouring the Bank's Retired Employees

Last year, the Commercial Bank issued a special identity card for its retired employees. The special card was issued to recognise the contribution that these ex-employees had made to the Bank and to provide them with access to special facilities when using the Bank's services.

Every year, the Bank recruits about 250 new staff, many of whom are unaware of the contribution made by the senior members they replace. It is important to acknowledge the contribution made by senior employees, who through their dedication and commitment have made the Bank what it is today.

Through the use of this card retired employees of the Bank will get priority in accessing banking services and will be entitled to other special privileges which will grow in the years to come.

Honouring the 'Differently-Abled'

The CBSRT marked the 'Month of the Disabled' in a 'different' way in December 2005. Residents of the 'Cheshire Home for the Differently-Abled' in Mount Lavinia were invited to a special programme put together by the Bank.

Nineteen differently abled people were brought to the Bank's branch at Reid Avenue for an inspirational programme of musical entertainment and motivational talks. Besides providing light entertainment, the objectives of the programme were to acknowledge the contribution made by the differently - abled to society, to strengthen the morale and self esteem among this group.

Part of the programme included songs performed by a troupe from the Sri Lanka Council for the Blind. Apart from the invitees, representatives from the state, medical personnel and social activists also participated in the event. The Bank's Reid Avenue branch was chosen for this programme due to its special architectural features which have made the building 'differently-abled' friendly.

'Green' Lending

Commercial Bank was a 'Participating Financial Institution' in 'E-Friends' loan scheme under which funds were made available by the Japan Bank for International Corporation for granting loans at concessionary rates of interest to incentivise companies to pay greater attention to the environment. Loans were granted for the purchase of equipment

that led to a reduction of emission, improved safety at the workplace or resulted in a reduction in the existing use of resources. Those who chose to relocate high polluting industries to estates equipped with special water treatment plants were also entitled to benefit under this scheme. Loan repayment extended up to 10 years at a concessionary interest rate of 6.50% per annum.

Following on the success of this loan scheme, we have now joined the second such loan scheme 'E-Friends II' for disbursing loans for similar activities. In addition, under the Technical Transfer Assistance Scheme, loans are available to cover up to 75% of consulting costs incurred in dealing with problems relating to emission, control of pollution, water treatment, waste minimisation and similar issues at a special interest rate of 2% per annum.



In addition to financial contributions towards community development programmes, the Bank's staff at all levels invest a considerable amount of time and effort both in Sri Lanka as well as in Bangladesh in reaching out to the communities.

Lowest NPA Ratio

among local banks

Risk, Return and Gearing

The International Standards Organisation defines **RISK as the combination of the probability of an event and its consequences**. While risk is prevalent in different forms and magnitudes in any organisation, its ramifications for an organisation in the business of financial intermediation are very wide and deep. It is interesting to note that majority of the risks has both an upside and a downside and hence, risk management is a rewarding discipline.

Risk management is all about achieving the optimum trade-off between a potential danger threatening success and an opportunity to enhance returns. Since, the Return On Assets (ROA) of banks is relatively lower compared to that of other businesses due to the very nature of their operations, banks are compelled to operate at high levels of gearing in order to report acceptable levels of Return On Equity (ROE). Due to the positive relationship between risk and return and the highly volatile political, economic, social and technological environment, high levels of gearing invariably result in an increase in the risk profile of the banks.

Broad Risk Exposures

Banks are exposed to a multitude of risks which can broadly be classified into **Credit, Market, Operational, Reputational** and **Business Volume** risks. Banks face risks that are common to any other corporate body as well as certain industry specific risks, as detailed below:

Credit Risk

Credit risk is most simply defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. This includes non-repayment of capital and / or interest within the agreed time frame, at the agreed rate of interest and in the agreed currency.

Market Risk

Market risk is the risk of loss resulting from changes in interest rates, foreign currency exchange rates, equity prices and commodity prices.

Operational Risk

Operational risk is defined as the potential loss arising from a breakdown in a bank's systems and procedures, internal controls, compliance

requirements or corporate governance practices, that results in human error, fraud, failure/delay to perform, or compromise of the Bank's interests by employees. Operational risk also includes the potential loss arising from a major failure of computer systems and from both natural and man-made disasters.

Reputational Risk

This is the potential damage to the reputation and image of the Bank, emanating from events such as drop in performance levels or service quality, compliance, corporate governance, litigation, management failures, deviations from business ethics etc.

Business Volume Risk

The volatility in revenue and profitability arising from adverse fluctuations in business volumes gives rise to business volume risk. Business volumes may adversely fluctuate either due to competitor activities or due to changes in banking preferences of the customers resulting in the importance of the process of financial intermediation being reduced.

Managing Risk at Commercial Bank

The design of the risk management system at Commercial Bank is bank specific; dictated by its size, capital structure, complexity of functions, level of technical expertise, quality of MIS etc. It is structured to address both banking as well as non-banking risks, with a view to deliver superior shareholder value. The risk management system ensures that the Bank takes well-calculated business risks while safeguarding the Bank's capital, its financial resources and profitability from various risks.

While trying to eliminate, if possible, certain risks altogether, such as legal and operational risks, the Bank is also mindful of the correlation between risk and reward in other areas. It is the Bank's policy to manage such risks effectively so as to mitigate or minimise such risks and to maximise the return to all its stakeholders. In this regard, the Bank has recognised the fact that development of necessary skills and expertise among the relevant staff to handle these risks professionally is the most effective strategy and consequently allocated sufficient resources for developing such skills. The management has implemented proper systems, policies and procedures in all dimensions of operations within the broad guidelines and policies set by the Board and periodically reviews them to ensure

that they are comprehensive enough and are being adhered to. These policies and procedures are integrated into the day to day decision making and corporate governance process.

However, as a result of the advances in technology, developments in the regulatory process, trend away from proprietary trading towards customer generated business and the growth in business volumes, it has now been decided to set up a fully-fledged independent Risk Management Department (RMD) in the Bank with a view to undertaking an integrated approach to risk management. An integrated approach to risk management is essential for the Bank in managing its three key imperatives viz. **Growth, Profitability and Capital Adequacy** proactively. Preliminary arrangements have already been made in this regard. Once set up and fully operational, the entire Risk Management process of the Bank is expected to be in line with the best international practices.

Advances in technology coupled with competition and customer demands are forcing the banks to adopt more sophisticated systems for processing transactions and for offering efficient customer service. Regulatory developments are making it compulsory that the banks implement more rigorous risk management methodologies in its internal models. On the other hand, Basel II places

heavy reliance on the internal risk assessment and management techniques for the purpose of quantifying and allocating capital for credit, market and operational risks. Under the market risk capital guidelines, banks that use internal models must have an independent risk control unit that is responsible for the design and implementation of the Bank's risk management system. Regulators will accordingly be placing more and more emphasis on the soundness of the risk management practices of banks in their supervisory review process. The total assets portfolio of the Bank exceeded Rs. 180 billion. (US \$ 1.7 billion) as at December 31, 2005. Apart from its domestic and off-shore banking operations in Sri Lanka and Bangladesh, the Bank is planning to expand its activities in the other SAARC countries with a view to becoming a Regional Bank and also, to offer other banking services such as money remittances in certain countries in the Middle East, Europe and North America. Regulatory authorities in various countries place heavy reliance on the strength of the risk management measures in place at the banks as a qualification criteria when assessing the applications for setting up operations in overseas locations. In view of all these reasons, the Bank decided to set up an integrated Risk Management Department.

Assessment of Riskiness of the Bank's Operations

We estimate our risk exposure based on our own assessment of the operations and historical data as well as the market perception to be as follows:

Risk	Rating
Credit Risk	Moderate
Market Risk	Low
Operational Risk	Low
Business Volume Risk	Moderate
Reputational Risk	Moderate

Reporting to the Board

All sectional heads of the Bank are required to periodically assess the extent of implementation of various risk management measures against each risk in a wide-ranging list of possible banking and non-banking risks that have been documented. A report thereon is submitted to the Board through the Board Audit Committee as at June 30 and December 31 each year.

To ensure the effectiveness of the Bank's risk management measures, strict audits are conducted by the Inspection Department as at March 31 and September 30 each year. The autonomy of the Inspection Department is assured by the Bank's organisational structure.

Summary of the Risks, their Implications and Risk Management Measures in place at Commercial Bank

Major forms of Risks faced by the Commercial Bank	Broad implications to the Bank arising from these risks	Important Risk Management measures in place at Commercial Bank to address these risks
Credit Risk		
<ul style="list-style-type: none"> ● Default risk ● Security risk ● Sectoral exposure risk ● Legal risk ● Related party risk ● Counterparty risk ● Political risk ● Cross-border risk ● Sovereign risk 	<p>Loans and advances is the single biggest asset of the Bank accounting for approximately 66% of the total assets. Hence, credit risk may result in loss of principal and interest and adverse implications on profits arising from suspension of interest and the need to provide for/write off non-performing advances. Increasing non-performing loans may lead to a downgrading of the credit rating which may in turn damage the reputation of the Bank. Violation of rules and regulations may result in imposition of penalties/repremanding by regulators. Finally, it may lead to deterioration in the quality of assets</p>	<ul style="list-style-type: none"> ● Setting up of an independent Credit Risk Management Unit ● Formation of a Credit Monitoring Unit to monitor rescheduling of facilities and classification of overdrafts ● Establishing suitable exposure limits for borrowers, lending officers and sectors and monitoring the limits regularly ● Risk mitigation steps such as taking collateral ● Setting counterparty limits based on financial strength ● Training of lending and legal officers on documentation and obtaining professional valuations ● Develop skills and expertise in lending officers to scientifically assess project viability and customer integrity ● Educating the staff on provisions in the Banking Act and other relevant statutes and the regulatory guidelines of the Central Bank ● Seeking external legal opinion ● Prompt action on early warning signals given by the IT system ● Strict adherence to the Single Borrower Limit and the regulatory guidelines of the Central Bank on loan classification, interest suspension and provisioning ● Maintaining neutrality in politics and arm's length approach in related party lending ● Regular review of country situations and country exposures ● Overseas expansion to reduce dependance on the Sri Lankan economy ● Constant post sanction monitoring with MIS support from the Computer System

Major forms of Risks faced by the Commercial Bank	Broad implications to the Bank arising from these risks	Important Risk Management measures in place at Commercial Bank to address these risks
Market Risk		
<ul style="list-style-type: none"> ● Interest rate risk ● Liquidity risk ● Exchange rate risk ● Investment risk ● Group financial risk ● Share prices falling risk ● Country risk 	<p>89% of the assets and 80% of the liabilities are subject to either fixed or variable interest rates. 32% of the assets and 30% of the liabilities are denominated in foreign currencies. Hence, financial/opportunity losses may arise from unexpected movements in market forces. Inability to honour obligations to depositors and other stakeholders on time, may result in breach of contractual obligations, rules and imposition of penalties/repremanding by regulators. Furthermore, loss of market share, downgrading the credit rating, damages to the reputation and image, loss of employee morale/shareholder confidence, erosion of public confidence, withdrawing or curtailing credit limits by foreign correspondents, may occur</p>	<ul style="list-style-type: none"> ● An active Assets & Liabilities Committee (ALCO) that meets fortnightly ● ALCO playing an active role in setting policies and monitoring compliance ● ALCO decisions are reviewed by the Board ● Carrying out gap analysis, timely re-pricing of products and hedging of exposures ● Entering into forward contracts, swapping and currency options ● Formulating a Liquidity Management Policy ● Daily monitoring of Advances to Deposits Ratio ● Maintaining the Liquid Assets Ratio with a contingency buffer ● Close monitoring and projecting the trends in the share market ● Dealer, broker, counterparty, transaction, product and currencywise exposure limits, which are constantly reviewed ● Suitable cut-loss limits on different exposures ● Regular monitoring of competitor behaviour and building competitor intelligence ● Maintaining strong relationships with the correspondents ● Enhancing the fee based income to minimise dependancy on fund based income ● Timely recognition of market losses through mark to market and exchange revaluation mechanism ● Non-engaging in large scale transactions on speculative basis ● Non-engaging in large scale derivative transactions ● Maintaining open forex positions within 7% of capital funds ● Strong access to money markets and credit lines through good reputation, strong earnings, financial strength, credit rating and backing of major shareholders ● Segregation of front, mid and back offices at the treasury ● Developing necessary skills and expertise for all areas of the treasury and setting up IT backed processing systems
Operational Risk		
<ul style="list-style-type: none"> ● Employee behavioural risks such as omission, fraud, judgemental errors, negligence, etc. ● Disaster related risks ● Trained staff turnover ● Insider dealing risk 	<p>Financial losses and damages to reputation arising from breakdowns in systems/ procedures and internal controls and disruptions to smooth functioning of the Bank. Resulting deterioration in the quality of customer services. Imposition of penalties/repremanding by regulators. Loss of competencies over competitors.</p>	<ul style="list-style-type: none"> ● Setting up of suitable Delegated Authority levels ● Formulation of a succession plan ● Creating a conducive working environment for the staff ● Training a second layer of staff and signing training bonds ● Effective internal audit function ● Issuing of circular instructions and protection of sensitive information

Major forms of Risks faced by the Commercial Bank	Broad implications to the Bank arising from these risks	Important Risk Management measures in place at Commercial Bank to address these risks
Operational Risk (Contd.)		
<ul style="list-style-type: none"> ● Sensitive information leakage risk ● Lack of creativity and innovativeness ● Risk of MIS ● IT related risks ● Planning & Budget related risks ● Shortcomings in the organisational structure ● Credit rating falling risk ● Money laundering ● Changes to statutory requirements ● Risk of technological obsolescence 	<p>Judgemental errors in decision making. Counter actions by the competitors to undermine the Bank's strategic advantages. Hindrances to expansion. Difficulties in maintaining the statutory ratios and sustaining profitability</p>	<ul style="list-style-type: none"> ● Quarterly assessment of the extent of compliance with the statutory requirements and reporting to the Board Audit Committee ● Obtaining oath of secrecy and certificate of propriety ● Building up sustainable competencies ● Implementation of computer based MIS System ● Implementation of "Hot Back Up" system ● Preventive maintenance of equipment through maintenance contracts with the vendors ● Creating awareness on "Know Your Customer" policy ● Building up of contingency buffer in the form of reserves ● Implementation of a well planned and sustainable expansion programme ● Regular upgrading of hardware and software to keep it 'state-of-the-art' ● Inculcating organisational values and ethics in employees ● Maintaining a Skills Inventory ● Risk transfer measures such as insurance
Business Volume Risks		
<ul style="list-style-type: none"> ● Risk of falling business volumes and market share ● Risk of being overtaken and losing the leadership position ● Risk of financial disintermediation ● Overtrading risk 	<p>Financial losses as a result of volatile revenues and reduced profitability. Probability of credit rating being downgraded and the resulting damage to the reputation. Loss of competitiveness and diseconomies of scale may lead to insolvency and ultimately threaten the going concern nature of the business. On the other hand, overtrading may lead to insufficient capital</p>	<ul style="list-style-type: none"> ● Innovative and convenient products and services ● Offering extended banking hours to customers for their convenience ● Regular assessment of the levels of customer satisfaction ● Taking prompt action on customer complaints ● Periodical review of business strategy, Vision and Mission of the Bank ● Regular assessment of the levels of staff satisfaction ● Practising the concept of Management by Objectives through the preparation of a Corporate Plan and an ambitious budget ● Monthly review of performance against the budgeted targets ● Measuring risk/inflation adjusted performance measures ● Establishment of a target driven culture and performance based rewards ● Benchmarking with competitor performance ● Maintaining a database on competitor intelligence ● Promote customer loyalty ● Constant reminders to the staff of the importance of delighting the customer

Developments during the year

Credit Monitoring Unit

The Credit Monitoring Unit set up in 2004 under the Finance & Planning Division of the Bank in order to avoid conflicts of interests and ensure independence from those responsible for lending, streamlined its operations during the year. In addition to monitoring the rescheduling of facilities, the criteria for the classification of overdrafts was made more stringent based on a recommendation of the Board Audit Committee. The decision to permit branches to continue to monitor non-performing loans beyond one year was also brought under the Unit.

Credit Risk Management Unit

The Bank set up a Credit Risk Management Unit for undertaking an independent assessment of all corporate lending and risk ratings. The Unit developed an improved internal risk rating system which takes into account both financial and non-financial factors that affect the going concern of the borrowers. In addition, the rating also incorporates a certain weightage for collateral offered. The new rating system has nine grades split between investment grades, below investment grade and default grade.

Ratings are typically assigned (or reaffirmed) each time the credit approval process is undertaken. The

analysis supporting the ratings is inseparable from the analysis supporting the credit approval decision. The rating assignment influences the approval process. The Credit Risk Management Unit functions independently of the credit staff, with the two functions having separate reporting structures.

The Credit Risk Management process is to be brought under the Integrated Risk Management Department to be set up.

Setting Up of Treasury Mid-Office

Treasury made initial arrangements to set up a designated mid-office with independent reporting lines for the specific purpose of managing the treasury related risks with a better focus. This unit intended to perform certain specific activities, which include some tasks that were hitherto carried out at different levels and extent. The initial objectives of the treasury mid-office would include setting up of risk management policies and guidelines, documenting the risk management procedures to be carried out by the treasury and establishment of required limits and monitoring. The mid-office would also be monitoring the liquidity position of the Bank. All treasury related regulatory and management reporting functions are expected to be carried out through the mid-office at a secondary stage.

Anti-Money Laundering Efforts

An Anti-Money Laundering Unit was formed in the Bank during the year.

Long awaited legislation relating to Money Laundering was passed by the Parliament recently. Despite the absence of a comprehensive / regulated preventive mechanism in the country to date for the detection and control of money laundering and terrorist financing, the Bank voluntarily designed and adopted some prudential measures in line with the requirements of the correspondent banks, to prevent the use of its system, products and services for illegal and unlawful purposes.

Introductory programmes were conducted during the year for all branch managers in order to create and raise awareness on the subject of money laundering, its impending legal implications, associated risks, international and domestic objectives and the relevant anti-money laundering steps. Adequate literature have also been provided to the Managers and they are expected to create awareness on the subject among each and every member of the staff.

Upon receipt of comprehensive anti-money laundering instructions and guidelines from the Financial Intelligence Unit set up under the relevant Act, the Bank hopes to widen the scope of its anti -money laundering

efforts during 2006 with the adaptation of a comprehensive document spelling out the Bank's anti-money laundering policy and procedures as a measure of response to international standards and in compliance with domestic statutory requirements.

Software Support for Risk Management

With a view to obtain more and more software support in its efforts in managing risks, the Bank signed up with IPS Sendero, a US based company for the implementation of software on Asset & Liability Management (ALM), Funds Transfer Pricing (FTP), Customer Profitability, Product Profitability and Organisational Profitability. The modules on ALM and FTP are currently being implemented. Software for Credit Scoring the SME and retail portfolios are also being implemented.

Plans for 2006 and onwards

Formation of an Integrated Risk Management Department

As explained earlier, preliminary arrangements have already been made to set up a fully-fledged **Integrated Risk Management Department** in the Bank with a view to introducing international best practices to the Bank on the subject. The entire project comprising of a gap analysis and design and implementation of a risk

management process to address the gaps identified is estimated to take about two years. The Bank is planning to obtain the services of a consultancy firm specialising on the subject.

Developing a Business Recovery Plan

A committee comprising senior officers from key areas of the Bank was appointed to carry out the task of preparing a comprehensive Business Recovery Plan (BRP). The staff involved attended local as well as overseas training programmes to understand and appreciate the concept of a comprehensive BRP. The first phase was to develop a plan with respect to the Branch Operations and a draft plan has now been prepared. The second phase would cover the Head Office Departments and other specialised areas. Work on the second phase would commence during the first half of 2006.

Implementation of Basel II

Central Bank of Sri Lanka has announced that the Basel II Accord on Capital Adequacy will be implemented in Sri Lanka from 2008, while the requirement to maintain capital for market risk will be implemented in 2006. Basel II, once implemented will integrate the internal risk management systems and regulatory capital adequacy requirements of banks. While the Bank has already made certain

preliminary arrangements in this regard, a lot needs to be done in the ensuing years for making its systems and procedures Basel II compliant. Integrated Risk Management Department, once set up, will be entrusted with the task of designing and implementing the systems and procedures required to make the Bank Basel II compliant within the time frame to be fixed by the Central Bank of Sri Lanka. In addition, the Bank will take the necessary capacity building measures on time ensuring a smooth migration to the advanced approaches of Basel II at the right time.

Financial Reports

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Financial Calendar - 2005/06

Final Dividend for 2004 paid on March 30, 2005
Interim Dividend for 2005 paid on November 29, 2005
Annual Report and Accounts for 2005 signed on February 14, 2006
Thirty-Seventh Annual General Meeting to be held on March 30, 2006
Final Dividend for 2005 proposed to be paid on March 30, 2006

Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka

For the three months ended March 31, 2005 (unaudited) May 2005
For the six months ended June 30, 2005 (unaudited) August 2005
For the nine months ended September 30, 2005 (unaudited) November 2005
Annual Report and Accounts for 2005 (audited) March 2006

Proposed Financial Calendar - 2006/07

Interim Dividend for 2006 in November 2006
Annual Report and Accounts for 2006 to be signed in February 2007
Thirty-Eighth Annual General Meeting to be held in March 2007
Final Dividend for 2006 in March 2007

Interim Financial Statements in terms of Rule 8.3 of the Colombo Stock Exchange and as per the requirements of the Central Bank of Sri Lanka

For the three months ending March 31, 2006 (unaudited) in May 2006
For the six months ending June 30, 2006 (unaudited) in August 2006
For the nine months ending September 30, 2006 (unaudited) in November 2006
Annual Report and Accounts for 2006 (audited) in March 2007

General

The Directors have pleasure in presenting to the members their Report together with the audited Financial Statements of the Commercial Bank of Ceylon Ltd., a public limited liability company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938, quoted in the Colombo Stock Exchange in March 1970 and a licensed commercial bank under the Banking Act No. 30 of 1988, for the year ended December 31, 2005.

These were approved by the Directors on February 14, 2006.

Principal Activities

Bank

The principal activities of the Bank continued to be banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, telebanking facilities, bancassurance, internet banking, dealing in Government securities, bullion trading, export and domestic factoring etc.

Subsidiaries

The principal activities of Commercial Development Co. Ltd., X-pertise Ltd. and ONEzero Co. Ltd. are property development, training and development of human resource and providing IT related services, respectively. The operations of the Commercial Bank Primary Dealer Ltd., whose principal activity was dealing in Government securities, ceased its operations as at September 30, 2005, consequent to the Bank obtaining the licence to operate as a Primary Dealer. The proceedings for voluntary winding up of the Company are in progress.

Associates

The principal activities of Commercial Leasing Co. Ltd., Equity Investments Lanka Ltd. and Commercial Fund Management (Pvt) Ltd. are leasing and factoring, providing venture capital and fund management, respectively.

There were no significant changes in the nature of principal activities of the Bank and the Group during the year under review, other than the commencement of operations by X-pertise Ltd. and the cessation of operations of Commercial Bank Primary Dealer Ltd.

Review of Business

The Chairman's Review on page 1 and the Managing Director's Report on page 15 provide an overall assessment on the financial performance and financial position of the Group, describe in detail its affairs and important events of the year. These reports form an integral part of the Directors' Report.

Future Developments / Branch Expansion

The branch expansion policy continued during the year and the Bank opened 5 Branches, 3 Customer Service Points and 1 Service Point in Sri Lanka and 1 Branch in Bangladesh. Two CSPs were also upgraded to fully-pledged branches. Further, the Bank launched the first ever Mobile ATM in the country for customer convenience. Bank intends to expand its branch network both in Sri Lanka and in Bangladesh.

System of Internal Controls

The Board of Directors has instituted an effective and comprehensive system of Internal Controls covering financial operations and compliance control and risk management required to carry on the business of banking in an orderly manner, safeguard its assets and secure as far as possible the accuracy and reliability of the records.

Corporate Governance

Systems and procedures are in place to ensure that Corporate Governance is properly practised. Specific measures taken in this regard are elaborated in Enterprise Governance on page 49 of this Report.

Human Resources

The Bank continued to implement appropriate Human Resource Management policies and practices to develop its employees and also to ensure their optimum contribution towards the achievement of corporate goals. Specific measures taken in this regard are detailed in the Knowledge Management Report on page 37.

Board Audit Committee

The following non-executive Directors of the Board served as members of the Board Audit Committee:

Mr. J.S. Mather (Chairman)
Dr. H.S. Wanasinghe
Mr. B.R.L. Fernando
Mr. A.N. Fonseka

Mr. A.L. Gooneratne attended the meetings by invitation.

The report of the Audit Committee is given on page 76 of this Report.

Vision, Mission and Corporate Conduct

The Bank's Vision and Mission are given on page 2 of this Report. The business activities of the Bank are conducted with the highest level of ethical standards in achieving its Vision and Mission.

Risk Management

Specific steps taken by the Bank in managing both banking and non-banking risks are detailed on page 61 of this Report.

Income

The Income of the Group for 2005 was Rs. 16,225.377 million (Rs. 12,436.752 million in 2004) of which the Bank's turnover accounted for 99.22% (98.82% in 2004).

Profit

The profit before tax of the Group and the Bank were up by 41.38% and 45.45% respectively (27.24% and 28.10% in 2004) and the profit after tax were up by 36.53% and 40.33% respectively (17.71% and 14.03% in 2004).

Details of profit relating to the Bank are given below:

	2005 Rs.	2004 Rs.
Profit for the year after payment of all expenses of management and providing for depreciation, possible loan losses, Financial VAT and contingencies	3,641,960,619	2,503,930,903
Provision for taxation	1,277,720,676	819,217,232
Net profit after taxation	2,364,239,943	1,684,713,671
Transfer from Revaluation Reserve	256,279	-
Profit/(loss) brought forward from previous year	(1,785,630)	853,453
Profit available for appropriation	2,362,710,592	1,685,567,124
Appropriations		
Dividends paid on 13% & 11.25% Cumulative Redeemable Preference Shares	230,352,150	230,352,150
15% Interim Dividend paid*	213,121,473	139,359,998
30% Final Dividend proposed*	426,242,946	280,640,606
Transfer to the Reserve Fund	412,000,000	-
Transfer to General Reserve	1,080,000,000	1,037,000,000
Profit/(loss) to be carried forward	994,023	(1,785,630)

* Interim and final dividends for 2004 were 20% and 40% respectively.

Dividends on Ordinary Shares

The Directors recommend the payment of 30% final dividend for the year 2005 (40% in 2004). An interim dividend of 15% was paid in November 2005 (20% in 2004). Accordingly, the total dividend for 2005 will be 45% on the enhanced share capital, consequent to the bonus issue of shares in June 2005 on the basis of 1:1.

Interim dividend was paid partly out of dividends received, which was not subject to further withholding tax. Final dividend will be paid partly out of dividends received and partly out of taxable profits of the Bank. The dividends paid out of profits will be exposed to withholding tax.

Provision for Taxation

Provision for taxation has been computed at the rates given in Note 8.1 to the Financial Statements.

It is the Bank's policy to provide for deferred taxation on timing differences, except on assets leased to customers, on the liability method.

Corporate Donations

During the year, the Bank made donations amounting to Rs. 9,847,600/- (Rs. 28,562,439/- in 2004) in terms of the resolutions passed at the last Annual General Meeting. The donations made to Government approved charities from the above amounted to Rs. 703,000/- (Rs. 3,514,734/- in 2004).

Property, Plant & Equipment

Capital expenditure on Property, Plant & Equipment, Capital Work-in-Progress and Intangible Assets amounted to Rs. 697.827 million (Rs. 487.930 million in 2004), details of which are given in Note 21 and 22 to the Financial Statements. Capital expenditure approved and contracted for after the year-end is given in Note 33 to the Financial Statements.

Market Value of Freehold and Leasehold Properties

All freehold and leasehold land & buildings of the Bank were last revalued by professionally qualified independent valuers as at December 31, 2004, with the permission of the Central Bank of Sri Lanka. The Directors are of the opinion that the revalued amounts are not in excess of the current market values of such properties.

Reserves

The total reserves of the Group stood at Rs.12,626.209 million as at December 31, 2005 (Rs. 11,501.155 million as at December 31, 2004) details of which are given in Notes 29 and 30 to the Financial Statements.

Share Capital and Debentures

The total issued and paid up ordinary share capital as at December 31, 2005 was Rs. 1,420.809 million consisting of 132,780,522 ordinary voting shares of Rs. 10/- each and 9,300,460 ordinary non-voting shares of Rs.10/- each, compared to Rs. 696.799 million as at December 31, 2004. The increase in the share capital was due to 1.361 million shares being issued for a consideration of Rs. 216.740 million upon exercise of the options granted under the ESOP 2002 and a scrip issue of 71.039 million ordinary shares in the proportion of 1 : 1 during the year.

In addition, the Company has Rs. 906.555 million worth 13% and Rs. 1,000.000 million worth 11.25% Cumulative Redeemable Preference Shares of Rs. 10/- each in issue. The funds raised therefrom have been used to expand the leasing and other long-term credit facilities of the Bank.

The details of share capital are given in Note 28 to the Financial Statements.

The Company has also raised Rs. 4,553.410 million through the issue of Unsecured Subordinated Redeemable 5-year debentures of Rs. 1,000/- each, of which Rs. 1,309.000 million was issued during the year through a private placement. The funds raised from these debentures have been used to expand the leasing business and for other general corporate purposes.

Share Information

Information relating to earnings, dividends, net assets and market value per share is given in Financial Highlights on page 3 of this Report. Information on share trading is given on page 134 of this Report.

Shareholdings

There were 6,438 registered shareholders (5,713 in 2004) holding ordinary voting shares and 2,410 registered shareholders (1,412 in 2004) holding ordinary non-voting shares of the Bank as at December 31, 2005. The distribution of shareholding is given on page 132 of this Report.

Equitable Treatment to Shareholders

Bank has made all endeavours to ensure equitable treatment to all shareholders.

Directors**List of Directors**

The Board of Directors of Commercial Bank of Ceylon Ltd. consists of 9 Directors with wide financial knowledge and experience. The qualifications and experience of the Directors are given on page 12.

The following were the Directors of the Bank during the year:

Mr. M.J.C. Amarasuriya (*Chairman*)
 Mr. J.S. Mather (*Deputy Chairman*)
 Mr. A.L. Gooneratne (*Managing Director*)
 Dr. H.S. Wanasinghe
 Mr. B.R.L. Fernando
 Mr. A.N. Fonseka
 Mr. L.J.A. Fernando
 Mr. Iyad M. Malas
 Mr. S.K.G. Senanayake (Alternate Director to
 Mr. Iyad M. Malas)
 Mr. M.L. Mack (Passed away on January 26, 2005)
 Mr. D.S. Weerakkody (Appointed on July 29, 2005)

Resignations and Appointments**Resignations**

None

Appointments

Mr. D.S. Weerakkody - July 29, 2005 (Director)

In accordance with Articles 85 & 86 of the Articles of Association of the Company, Messrs J.S. Mather and L.J.A. Fernando retire by rotation and being eligible for re-election are recommended for re-election.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of Financial Statements of the Bank to reflect a true and fair view of the state of its affairs. The Directors are of the view that these Financial Statements have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards, Companies Act No. 17 of 1982, the Banking Act No. 30 of 1988 and the Listing Rules of the Colombo Stock Exchange.

Directors' Interests in Ordinary Shares

Shareholdings of Directors at the beginning and at the end of the year were as follows:

	As at 31.12.05	As at 01.01.05
Mr. M.J.C. Amarasuriya	309,864	153,932
	104,932	50,466
	(non-voting)	(non-voting)
Mr. J.S. Mather	-	-
Mr. A.L. Gooneratne	390,158	138,703
	17,324	8,662
	(non-voting)	(non-voting)
Dr. H.S. Wanasinghe	-	-
Mr. B.R.L. Fernando	4,778	2,389
	(non-voting)	(non-voting)
Mr. A.N. Fonseka	622	311
	(non-voting)	(non-voting)
Mr. L.J.A. Fernando	-	-
Mr. Iyad M. Malas	-	-
Mr. S.K.G. Senanayake	-	-
Mr. D.S. Weerakkody	-	-
Percentage shareholding of the Directors -		
ordinary voting shares	0.53%	0.45%

Directors' shareholdings have not changed subsequent from the date of the Balance Sheet up to January 14, 2006 being one month prior to the date of Notice of the Annual General Meeting.

Directors' Interests in Cumulative Redeemable Preference Shares

There were no Cumulative Redeemable Preference Shares registered in the names of the Directors as at the beginning and at the end of the year.

Directors' Interests in Debentures

There were no debentures registered in the names of the Directors as at the beginning and at the end of the year.

Employee Share Ownership / Option Plans

The details of the Employee Share Option Plan are given in Note 28 to the Financial Statements.

Directors' Interests in Contracts

Directors' interests in contracts or proposed contracts with the Bank, both direct and indirect are disclosed in Note 35 to the Financial Statements. These interests have been declared at Directors' Meetings. Directors have refrained from voting on matters in which they were materially interested. Directors have no direct or indirect interest in any other contract or proposed contract with the Bank.

Compliance with Laws and Regulations

The Bank/Group has not engaged in any activities contravening the laws and regulations. All those responsible for ensuring compliance with the provisions in various laws and regulations quarterly confirm their compliance to the Board Audit Committee.

Environmental Protection

The Bank/Group has not engaged in any activity, which is harmful to the environment. Specific measures taken to protect the environment are given in the Community Impact Report on page 57 of this Report.

Statutory Payments

The Directors, to the best of their knowledge and belief are satisfied that all statutory payments due to the Government and in relation to the employees have been made in time.

Events After the Balance Sheet Date

There have not been any material events that occurred subsequent to the date of the Balance Sheet that require adjustments to the Financial Statements, other than those disclosed, if any, in Note 38 to the Financial Statements.

Going Concern

The Board of Directors is satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements are prepared based on the going concern concept.

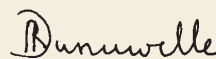
Appointment of Auditors

In keeping with the principles of good governance, the Board of Directors decided that the Bank should adopt a policy of rotation of Auditors, once every five years. Accordingly, Auditors once appointed will serve for a maximum period of five years consecutively, subject to them being re-elected by the shareholders upon a recommendation of the Board of Directors, annually. As such, the Board requested the retiring Auditors, M/s. KPMG Ford, Rhodes, Thornton & Co. to refrain from offering themselves for re-election at the forthcoming Annual General Meeting. However, the retiring Auditors have signified their willingness to continue in office. In the circumstances, the appointment of Auditors will be decided by the shareholders at the forthcoming Annual General Meeting.

Notice of Meeting

Notice of Meeting relating to the Thirty Seventh Annual General Meeting is given on page 146.

By Order of the Board,



Mrs. R.R. Dunuwille
Company Secretary

February 14, 2006
Colombo.

Under Section 143 of the Companies Act No. 17 of 1982, Directors of the Company have responsibility for ensuring that the Company keeps proper books of account of all the transactions and prepares Financial Statements that give a true and fair view of the state of affairs and of the profit/loss for the year.

Accordingly, the Directors have caused the Bank to maintain proper books of account and review the financial reporting system at their regular meetings and through the Audit Committee. The Audit Committee Report is given on page 76 of this Report. The Financial Statements for the year 2005 prepared and presented in this Report are consistent with the underlying books of account and are in conformity with the requirements of the Companies Act, Sri Lanka Accounting Standards, the Banking Act No. 30 of 1988 and the Listing Rules of the Colombo Stock Exchange. The Directors consider that, in preparing the Financial Statements exhibited on pages 78 to 125 inclusive, they have adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgements and estimates.

The Directors also have taken such steps as are reasonably open to them to safeguard the assets of the Bank and to prevent and detect frauds and other irregularities. In this regard, the Directors have instituted an effective and comprehensive system of internal controls comprising of internal check, internal audit and financial and other controls required to carry on the business of banking in an orderly manner, safeguard its assets and secure as far as practicable the accuracy and reliability of the records.

The Bank's Auditors, M/s. KPMG Ford, Rhodes, Thornton & Co. carry out reviews and sample checks on the system of internal controls as they consider appropriate and necessary for expressing their opinion on the Financial Statements.

M/s. KPMG Ford, Rhodes, Thornton & Co., the Auditors of the Bank have examined the Financial Statements made available by the Board of Directors together with all the financial records, related data, minutes of shareholders and Directors meetings and express their opinion which appears as reported by them on page 77 of this Report.

By Order of the Board,


Mrs. R. R. Dunuwille
Company Secretary

February 14, 2006
Colombo.

The Audit Committee comprises of four non-Executive members of the Board and the Managing Director who attends Meetings by invitation. The Bank's Assistant General Manager - Inspection, functions as the Secretary of the Committee.

The Audit Committee, amongst other things, is empowered to examine any matter relating to the financial and other connected affairs of the Bank and to review all internal and external audit and inspection programmes, internal control systems and procedures, accounting policies, adherence to statutory compliance requirements etc., thereby ensuring that a sound financial reporting system is in place and is well managed in order to provide accurate, appropriate and timely information to the Board of Directors, Management, Regulatory Authorities and Stakeholders. Accordingly, the Audit Committee ensures that the Bank's operations conform to the rules, regulations, established banking practices and accepted ethical guidelines to meet the Bank's policies.

During the year under review, the Committee carried out the following tasks:

1. Examined over 160 Audit and Inspection Reports on Branches and Head Office Departments and followed up where operational deficiencies or shortcomings had been observed. The Committee met four times in respect of the year under review.
2. Met the External Auditors at the conclusion of the Annual Audit, reviewed the Auditor's Internal Control Report, together with the Management's response thereto. The annual Financial Statements were also reviewed.
3. Regularly reviewed the effectiveness of the internal financial controls and the established procedures for identifying, assessing and managing risks. The Corporate Management was invited to make presentations on the effectiveness of the "Risk Management measures adopted in their areas of responsibility".
4. Bank's Compliance with Mandatory Banking and other statutory requirements were reviewed quarterly and the adherence to risk management measures approved by the Board, bi-annually.
5. Major decisions taken by the "Assets and Liabilities Committee" and "Credit Policy and Portfolio Review Committee" of the Bank, were reviewed regularly. All exceptional items charged to the Income Statement were scrutinised, Bank's Chart of Accounts were examined closely to clear long outstanding items and credit monitoring procedures were further strengthened.
6. With the Board's concurrence, enlisted the services of five Firms of Chartered Accountants, approved by the Central Bank of Sri Lanka, to supplement the Bank's Inspection Department, in carrying out Branch inspections.
7. An Annual evaluation on the effectiveness of the Audit Committee by the non-Audit Committee members of the Board of Directors was arranged. The overall outcome was satisfactory. The areas which require strengthening as highlighted in this assessment will receive necessary attention.

The proceedings of the Audit Committee Meetings are regularly reported to the Board of Directors.

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Bank's assets are safeguarded and that the financial position of the Bank is well monitored.

The Board of Directors decided to rotate the Auditors once every five years and accordingly, the election of Auditors will come up at the forthcoming Annual General Meeting.

J.S. Mather
Chairman - Audit Committee
February 17, 2006



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
32A, Sir Mohamed Macan Markar Mawatha,
P. O. Box 186,
Colombo 00300,
Sri Lanka.

Tel : +94 - 11 242 6426
Fax : +94 - 11 244 5872
+94 - 11 244 6058
+94 - 11 254 1249
Internet : www.lk.kpmg.com

REPORT OF THE AUDITORS

TO THE MEMBERS OF COMMERCIAL BANK OF CEYLON LTD.

We have audited the balance sheet of Commercial Bank of Ceylon Ltd. as at December 31, 2005, the consolidated balance sheet of the Bank and its subsidiaries as at that date, and the related statements of income, cash flows and changes in equity for the year then ended, together with the accounting policies and notes exhibited on pages 78 to 125 of the financial statements.

Respective Responsibilities of Directors and Auditors

The Directors are responsible for preparing and presenting these financial statements in accordance with the Sri Lanka Accounting Standards. Our responsibility is to express an opinion on these financial statements, based on our audit.

Basis of Opinion

We conducted our audit in accordance with the Sri Lanka Auditing Standards, which require that we plan and perform the audit to obtain reasonable assurance about whether the said financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the said financial statements, assessing the accounting principles used and significant estimates made by the Directors, evaluating the overall presentation of the financial statements, and determining whether the said financial statements are prepared and presented in accordance with the Sri Lanka Accounting Standards. We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purposes of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper books of account for the year ended December 31, 2005, and to the best of our information and according to the explanations given to us, the said balance sheet and related statements of income, cash flows and changes in equity and the accounting policies and notes thereto, which are in agreement with the said books and have been prepared and presented in accordance with the Sri Lanka Accounting Standards, provide the information required by the Companies Act No. 17 of 1982 and the Banking Act No. 30 of 1988 and give a true and fair view of the Bank's state of affairs as at December 31, 2005 and of its profit and cash flows for the year then ended.

In our opinion, the consolidated balance sheet and statements of income, cash flows and changes in equity and the accounting policies and notes thereto have been properly prepared and presented in accordance with the Companies Act No. 17 of 1982, the Banking Act No. 30 of 1988 and the Sri Lanka Accounting Standards, and give a true and fair view of the state of affairs as at December 31, 2005, and the profit and cash flows for the year then ended of the Bank and its subsidiaries dealt with thereby, so far as concerns the members of the Bank.

Directors' Interests in Contracts with the Company

According to the information made available to us, the Directors of the Bank were not directly or indirectly interested in contracts with the Bank during the year ended December 31, 2005, except as stated in Note 35 to these financial statements.

Ford Rhodes Thornton & Co.
CHARTERED ACCOUNTANTS

Colombo.
February 14, 2006

KPMG Ford, Rhodes, Thornton & Co.,
a Sri Lankan partnership, is the Sri Lankan member
firm of KPMG International, a Swiss cooperative

R. N. Asirwatham FCA	A. N. Fernando FCA
S. Sirikananathan FCA	M. R. Mihular FCA
Ms. M. P. Perera FCA	P. Y. S. Perera FCA
C. P. Jayatilake FCA	T. J. S. Rajakarier FCA
W. W. J. C. Perera FCA	Ms. S. Joseph ACA

Income Statement

For the year ended December 31,	Bank			Group			
	Note	2005 Rs.'000	2004 Rs.'000	Change %	2005 Rs.'000	2004 Rs.'000	Change %
Income		16,099,645	12,289,645	31.00	16,225,377	12,436,752	30.46
Interest income	1	13,032,842	9,583,803	35.99	13,292,791	9,777,556	35.95
Less: Interest expenses	2	7,226,060	4,878,125	48.13	7,458,430	5,039,397	48.00
Net interest income		5,806,782	4,705,678	23.40	5,834,361	4,738,159	23.14
Foreign exchange profit		586,915	873,561	(32.81)	586,915	873,561	(32.81)
Fee and commission income		1,759,704	1,377,069	27.79	1,759,619	1,377,023	27.78
Other income	3	720,184	455,212	58.21	586,052	408,612	43.43
		8,873,585	7,411,520	19.73	8,766,947	7,397,355	18.51
Less: Operating expenses	4						
Personnel costs		2,128,177	1,806,162	17.83	2,143,859	1,820,124	17.79
Premises, equipment and establishment expenses		1,163,615	1,040,544	11.83	1,146,394	1,018,796	12.52
Provision for staff retirement benefits	5	235,971	325,740	(27.56)	235,971	325,740	(27.56)
Loan losses & provisions	6	414,864	699,200	(40.67)	414,864	699,200	(40.67)
Other overhead expenses		1,288,998	1,035,943	24.43	1,258,273	1,015,380	23.92
		5,231,625	4,907,589	6.60	5,199,361	4,879,240	6.56
Profit from operations		3,641,960	2,503,931	45.45	3,567,586	2,518,115	41.68
Add/(less): Share of profit/(loss) before tax of Associate Companies	7	–	–	–	100,462	76,356	31.57
Profit before taxation		3,641,960	2,503,931	45.45	3,668,048	2,594,471	41.38
Less: Provision for taxation	8	1,277,720	819,217	55.97	1,309,969	867,370	51.03
Profit after taxation		2,364,240	1,684,714	40.33	2,358,079	1,727,101	36.53
Less: Minority interest		–	–	–	1,641	1,742	(5.80)
Net profit for the year		2,364,240	1,684,714	40.33	2,356,438	1,725,359	36.58
Basic Earnings per Ordinary Share	9	Rs. 15.02	Rs. 10.24	46.68	Rs. 14.96	Rs. 10.52	42.21
Diluted Earnings per Ordinary Share	9	Rs. 14.84	Rs. 10.11	46.79	Rs. 14.79	Rs. 10.40	42.21
Dividend per Ordinary Share		Rs. 4.50	Rs. 6.00	(25.00)	Rs. 4.50	Rs. 6.00	(25.00)

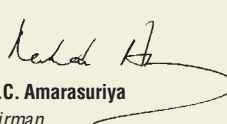
The Significant Accounting Policies and the Notes from pages 83 to 125 form an integral part of these Financial Statements.

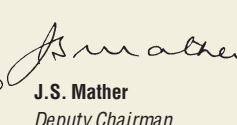
As at December 31,	Note	Bank			Group		
		2005 Rs.'000	2004 Rs.'000	Change %	2005 Rs.'000	2004 Rs.'000	Change %
ASSETS							
Cash and short term funds	12	18,662,853	12,135,607	53.79	18,656,759	12,135,716	53.73
Balances with Central Banks	13	9,045,180	6,319,680	43.13	9,045,180	6,319,680	43.13
Government Treasury Bills and Bonds	14	18,904,472	5,521,750	242.36	19,159,885	6,646,721	188.26
Commercial paper		407,567	559,689	(27.18)	407,567	559,689	(27.18)
Securities purchased under re-sale agreements		808,135	399,152	102.46	808,135	2,087,420	(61.29)
Dealing securities	15	182,243	109,560	66.34	182,243	109,560	66.34
Investment securities	16	3,691,372	2,940,326	25.54	3,691,472	2,940,426	25.54
Treasury Bonds maturing after one year		1,714,088	13,778,182	(87.56)	1,714,088	14,378,898	(88.08)
Bills of Exchange	17.1	2,790,316	2,798,872	(0.31)	2,790,316	2,798,872	(0.31)
Loans & advances	17.2	108,917,829	82,604,512	31.85	108,917,473	82,604,512	31.85
Lease receivable within one year	17.3	2,700,081	2,019,755	33.68	2,676,160	2,003,595	33.57
Lease receivable from one to five years	17.4	4,354,801	3,297,033	32.08	4,295,420	3,242,691	32.46
		<u>172,178,937</u>	<u>132,484,118</u>	29.96	<u>172,344,698</u>	<u>135,827,780</u>	26.88
Investments in Associate Companies	18	107,081	108,581	(1.38)	282,789	242,718	16.51
Investments in Subsidiary Companies	19	433,681	429,393	1.00	-	-	-
Interest and fees receivable		1,183,626	1,097,115	7.89	1,198,631	1,143,316	4.84
Other assets	20	2,902,804	1,458,507	99.03	2,792,750	1,444,906	93.28
Property, Plant & Equipment	21	3,121,349	2,752,453	13.40	3,365,068	2,990,547	12.52
Intangible assets	22	149,985	143,218	4.72	151,115	143,218	5.51
Total Assets		<u>180,077,463</u>	<u>138,473,385</u>	30.04	<u>180,135,051</u>	<u>141,792,485</u>	27.04
FINANCED BY:							
LIABILITIES							
Deposits from customers	23	127,601,280	98,729,841	29.24	127,490,713	98,621,515	29.27
Dividends payable		230,352	230,352	-	230,352	232,320	(0.85)
Borrowings	24	13,425,857	9,089,740	47.70	13,425,857	9,089,740	47.70
Securities sold under re-purchase agreements		11,389,174	9,049,893	25.85	11,386,147	12,261,452	(7.14)
Other liabilities	25	6,077,107	3,495,805	73.84	6,070,129	3,491,196	73.87
Tax payable		806,200	483,427	66.77	772,664	484,187	59.58
Deferred taxation	26	225,700	238,400	(5.33)	238,921	250,792	(4.73)
Debentures	27	4,553,410	3,244,410	40.35	4,553,410	3,244,410	40.35
Total liabilities		<u>164,309,080</u>	<u>124,561,868</u>	31.91	<u>164,168,193</u>	<u>127,675,612</u>	28.58
MINORITY INTEREST		-	-	-	13,285	12,364	7.45
SHAREHOLDERS' FUNDS							
Share capital	28	3,327,364	2,603,354	27.81	3,327,364	2,603,354	27.81
Statutory Reserve Fund	29	1,421,000	1,009,000	40.83	1,421,819	1,009,819	40.80
Reserves	30	11,020,019	10,299,163	7.00	11,204,390	10,491,336	6.80
Shareholders' funds		<u>15,768,383</u>	<u>13,911,517</u>	13.35	<u>15,953,573</u>	<u>14,104,509</u>	13.11
Total liabilities, minority interest and shareholders' funds		<u>180,077,463</u>	<u>138,473,385</u>	30.04	<u>180,135,051</u>	<u>141,792,485</u>	27.04
Commitments and contingencies	32	<u>47,153,953</u>	<u>43,941,880</u>	7.31	<u>47,153,953</u>	<u>43,941,880</u>	7.31
Net assets value per ordinary share (Rs.)		<u>Rs. 97.56</u>	<u>Rs. 84.49</u>	15.47	<u>Rs. 98.87</u>	<u>Rs. 85.85</u>	15.17

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The Significant Accounting Policies and the Notes from pages 83 to 125 form an integral part of these Financial Statements.

Approved and signed for and on behalf of the Board


M.J.C. Amarasuriya
 Chairman


J.S. Mather
 Deputy Chairman


A.L. Gooneratne
 Managing Director


Mrs. R.R. Dunuwille
 Company Secretary

February 14, 2006
 Colombo

Statement of Changes in Equity

For the year ended December 31, 2005

Note	Share Capital			Statutory Reserve Fund	Reserves				Total
	Ordinary Voting Shares	Ordinary Non-Voting Shares	Cum. Red. Preference Shares		Share Premium	Revaluation Reserve	General Reserve	Unappropriated Profit	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
BANK									
	650,000	46,501	1,906,555	1,009,000	2,182,881	157,286	5,508,000	223,735	11,683,958
	-	-	-	-	-	-	-	(222,881)	(222,881)
	298	-	-	-	4,103	-	-	-	4,401
	-	-	-	-	(110)	-	-	-	(110)
	-	-	-	-	-	1,131,147	-	-	1,131,147
	-	-	-	-	-	-	-	1,684,714	1,684,714
	-	-	-	-	-	-	1,037,000	(1,037,000)	-
10	-	-	-	-	-	-	-	(369,712)	(369,712)
	650,298	46,501	1,906,555	1,009,000	2,186,874	1,288,433	6,545,000	278,856	13,911,517
	-	-	-	-	-	-	-	(280,641)	(280,641)
	13,616	-	-	-	203,124	-	-	-	216,740
	663,892	46,502	-	-	(710,394)	-	-	-	-
	-	-	-	-	-	(256)	-	256	-
	-	-	-	-	-	-	-	2,364,240	2,364,240
	-	-	-	412,000	-	-	-	(412,000)	-
	-	-	-	-	-	-	1,080,000	(1,080,000)	-
10	-	-	-	-	-	-	-	(443,473)	(443,473)
	1,327,806	93,003	1,906,555	1,421,000	1,679,604	1,288,177	7,625,000	427,238	15,768,383
GROUP									
	650,000	46,501	1,906,555	1,009,000	2,182,881	157,286	5,508,000	376,082	11,836,305
	-	-	-	-	-	-	-	(222,881)	(222,881)
	298	-	-	-	4,103	-	-	-	4,401
	-	-	-	-	(110)	-	-	-	(110)
	-	-	-	-	-	1,131,147	-	-	1,131,147
	-	-	-	-	-	-	-	1,725,359	1,725,359
	-	-	-	819	-	-	-	(819)	-
	-	-	-	-	-	-	1,037,000	(1,037,000)	-
10	-	-	-	-	-	-	-	(369,712)	(369,712)
	650,298	46,501	1,906,555	1,009,819	2,186,874	1,288,433	6,545,000	471,029	14,104,509
	-	-	-	-	-	-	-	(280,641)	(280,641)
	13,616	-	-	-	203,124	-	-	-	216,740
	663,892	46,502	-	-	(710,394)	-	-	-	-
	-	-	-	-	-	(256)	-	256	-
	-	-	-	-	-	-	-	2,356,438	2,356,438
	-	-	-	412,000	-	-	-	(412,000)	-
	-	-	-	-	-	-	1,080,000	(1,080,000)	-
10	-	-	-	-	-	-	-	(443,473)	(443,473)
	1,327,806	93,003	1,906,555	1,421,819	1,679,604	1,288,177	7,625,000	611,609	15,953,573

Composition of the unappropriated profit carried forward is given in Note 11 to the Financial Statements.

<i>For the year ended December 31,</i>	Bank		Group	
	2005	2004	2005	2004
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash Flows from Operating Activities				
Interest and commission receipts	14,781,451	10,909,379	15,038,305	11,101,662
Interest payments	(7,226,060)	(4,878,125)	(7,458,430)	(5,039,397)
Recoveries on loans previously provided/written-off	198,949	215,725	198,949	215,725
Foreign exchange profit and other receipts	616,912	904,190	636,254	906,385
Cash payments to employees and suppliers	(4,517,594)	(3,948,042)	(4,455,629)	(3,895,283)
Operating profit before changes in operating assets	3,853,658	3,203,127	3,959,449	3,289,092
(Increase)/Decrease in operating assets:				
Balances with Central Banks	(2,725,500)	(1,086,866)	(2,725,500)	(1,086,866)
Funds advanced to customers	(28,240,979)	(24,971,085)	(28,227,823)	(24,938,058)
Increase/(Decrease) in operating liabilities:				
Deposits from customers	28,892,082	24,038,952	28,889,841	24,018,151
Negotiable certificates of deposit	(20,643)	(493,658)	(20,643)	(493,658)
Net cash from operating activities before income tax	1,758,618	690,470	1,875,324	788,661
Income tax paid	(956,552)	(441,121)	(984,901)	(545,595)
Net cash inflow/(outflow) from operating activities	802,066	249,349	890,423	243,066
Cash Flows from Investing Activities				
Dividends received	185,342	107,103	54,480	54,355
Interest received	158,570	99,661	158,570	99,661
Government Treasury Bills and Bonds	(13,379,218)	10,339,288	(12,534,587)	14,025,095
Securities purchased under re-sale agreements	(408,983)	5,784,444	1,279,285	1,883,614
Securities sold under re-purchase agreements	2,339,281	(1,530,309)	(875,305)	(689,067)
Commercial paper	152,122	(13,329)	152,122	(13,329)
Treasury Bonds maturing after one year	12,064,094	(13,778,182)	12,664,810	(14,378,898)
Disposal/(Additions) of Dealing Securities	(72,683)	(109,560)	(72,683)	(109,560)
Additions to investments	(1,381,119)	(555,535)	(1,376,831)	(555,535)
Income from Associate Companies	-	-	24,534	11,575
Proceeds from matured investments	722,545	92,089	722,545	92,089
Proceeds from sale of investment securities	17,554	168,812	17,554	168,812
Purchase of Property, Plant & Equipment	(697,827)	(432,040)	(735,654)	(483,701)
Proceeds from sale of Property, Plant & Equipment	54,005	68,481	57,691	84,935
Net cash inflow/(outflow) from investing activities	(246,317)	240,923	(463,469)	190,046
Cash Flows from Financing Activities				
Dividends paid to Minority Shareholders	-	-	(720)	(2,681)
Proceeds from issue of Debentures	1,309,000	1,000,000	1,309,000	1,000,000
Share issue expenses incurred	-	(110)	-	(110)
Net increase in other borrowings	5,386,611	2,195,462	5,511,891	2,253,344
Dividends paid	(724,114)	(551,908)	(726,082)	(549,940)
Net cash inflow/(outflow) from financing activities	5,971,497	2,643,444	6,094,089	2,700,613

Cash Flow Statement

<i>For the year ended December 31,</i>	Bank		Group	
	2005	2004	2005	2004
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Net increase in cash and cash equivalents	6,527,246	3,133,716	6,521,043	3,133,725
Cash and cash equivalents at beginning of the period	12,135,607	9,001,891	12,135,716	9,001,991
Cash and cash equivalents at end of the period (Refer to Note 12)	18,662,853	12,135,607	18,656,759	12,135,716
Reconciliation of Operating Profit				
Profit before taxation	3,641,960	2,503,931	3,668,048	2,594,471
Add/(Less):				
Investment income	(440,672)	(216,881)	(334,344)	(175,708)
Share of (profit)/loss of Associate Companies	-	-	(100,462)	(76,356)
Notional tax credit on interest on Treasury Bills and Bonds	(11,095)	(51,493)	(14,105)	(52,917)
(Profit)/Loss on sale of shares	(16,054)	(60,302)	(16,054)	(60,302)
(Profit)/Loss on sale of Property, Plant & Equipment	(31,008)	(352)	(33,323)	(11,728)
Depreciation	299,167	260,347	328,868	284,757
Loan losses & provisions	414,864	699,200	414,864	699,200
(Gain)/Loss on Mark to Market Valuation	(3,504)	68,677	21,423	76,100
Dividends received from Associate Companies	-	-	24,534	11,575
Operating profit before changes in operating assets	3,853,658	3,203,127	3,959,449	3,289,092

1. General

Commercial Bank is a public quoted company incorporated on June 25, 1969 and domiciled in Sri Lanka. The Consolidated Financial Statements of the Bank for the year ended December 31, 2005 comprise the Bank (parent company) and its subsidiaries (together referred to as the "Group") and the Group's interest in its Associate Companies.

The Financial Statements were authorised for issue on February 14, 2006.

1.1 Principal Activities

Bank

The principal activities of the Bank are banking and related activities such as accepting deposits, personal banking, trade financing, off-shore banking, resident and non-resident foreign currency operations, travel related services, corporate and retail credit, project financing, lease financing, rural credit, issuing of local and international credit cards, telebanking facilities, bancassurance, internet banking, dealing in Government Securities, bullion trading, export and domestic factoring, etc.

Subsidiaries

The principal activities of the Bank's subsidiaries, namely, Commercial Development Co. Ltd., Commercial Bank Primary Dealer Ltd., ONEzero Company Ltd. and X-pertise Ltd. are property development, dealing in Government securities as a Primary Dealer, providing IT related services and training and development of human resource, respectively. However, Commercial Bank Primary Dealer Ltd. ceased its operations as at September 30, 2005, consequent to the Bank obtaining the licence to operate as a Primary Dealer. The proceedings for voluntary winding up of the Company are in progress.

Associates

The principal activities of the Bank's associates, namely, Commercial Leasing Company Ltd., Equity Investments Lanka Ltd. and Commercial Fund Management (Pvt.) Ltd. are leasing and factoring, providing venture capital and fund management, respectively.

1.2 Basis of Preparation

The Financial Statements of the Bank are prepared under the historical cost convention. No adjustment has been made for inflationary factors affecting the Financial Statements except that Government Securities, certain dealing securities, investment securities and land and buildings are stated at valuation as explained in Notes 15, 16 and 21 to the Financial Statements. Assets and liabilities are grouped by nature and listed in an order that reflects their relative liquidity. These Financial Statements are prepared in Sri Lankan Rupees unless otherwise stated. Where appropriate the Significant Accounting Policies are disclosed in the succeeding notes.

1.3 Statement of Compliance

The Financial Statements of the Bank are prepared in accordance with the Sri Lanka Accounting Standards and therefore present fairly the financial position, financial performance and cash flows of the Bank.

1.4 Basis of Consolidation

The Bank's Financial Statements comprise the amalgamation of the Financial Statements of the Domestic Banking Unit, the Off-shore Banking Centre and the foreign operations that are integral to the operations of the Bank. The Group Financial Statements comprise consolidation of the Financial Statements of the Bank, its subsidiaries in terms of the Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in subsidiaries and the proportionate share of the profit/loss of its associate companies in terms of the Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

1.4.1 Subsidiaries

Subsidiaries are those enterprises controlled by the Bank. Control exists when the Bank has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The Financial Statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The Consolidated Financial Statements are prepared to a common financial year ending December 31. All subsidiaries in the Group have a common financial year ending December 31.

A listing of the Group's subsidiaries is set out in Note No. 19 to the Financial Statements.

The interest of the outside shareholders of the Group is disclosed separately under the heading "Minority Interest".

1.4.2 Associates

Associates are those enterprises in which the Group has significant influence, but no control, over the financial and operating policies. Consolidated Financial Statements include the Group's share of the total recognised gains and losses of the Associates on the Equity Method, from the date that significant influence commences until the date that significant influence ceases.

A listing of the Associate Companies are set out in Note No.18 to the Financial Statements.

1.4.3 Goodwill/Negative Goodwill on acquisition of Subsidiaries and Associates

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets acquired. Acquired goodwill is recognised in the Consolidated Balance Sheet and amortised on the straight-line basis over a period of 5 years. In respect of associates the amount of goodwill included in the carrying amount, if any, is amortised over a period of 5 years.

Negative Goodwill arising on an acquisition represents the excess of fair value of the net identifiable assets acquired over the cost of acquisition.

No Goodwill/Negative Goodwill arose from the treatment of Associates under the Equity Method since Commercial Bank had the respective percentages of ownership in associates from the commencement of those associates.

The revised Sri Lanka Accounting Standard No. 25 on Business Combinations has no impact on the Financial Statements of the year.

1.4.4 Goodwill/Negative Goodwill on acquisition of Foreign operations that are integral to the operations of the Bank

Goodwill represents the excess of the cost of acquisition over the fair value of the net identifiable assets acquired. Acquired goodwill is written off in full in the year of acquisition, since the Bank is not permitted to pay dividends otherwise, as per the Section 22 of the Banking Act No. 30 of 1988.

Negative Goodwill arising on an acquisition represents the excess of the fair value of the net identifiable assets acquired over the cost of acquisition. Negative Goodwill is used to reduce proportionately the value of non-monetary assets acquired until such excess is completely eliminated.

1.4.5 Transactions Eliminated on Consolidation

Inter-company transactions and balances and any unrealised gains arising from such inter-company transactions and balances have been eliminated in full in preparing the Consolidated Financial Statements. Unrealised gains resulting from transactions with associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains unless there is evidence of impairment in value.

1.5 Foreign Currency Translation

1.5.1 Transactions in foreign currencies are translated to Sri Lankan Rupees at the middle rate of exchange ruling at the date of the transaction. Monetary items denominated in foreign currencies at the Balance Sheet date are translated to Sri Lankan Rupees at the middle rate of exchange ruling at that date. Foreign exchange differences arising on the settlement or reporting of the Bank's monetary items at rates different from those which were initially recorded are dealt in the Income Statement. Non-monetary items denominated in foreign currencies that are stated at fair value are translated to Sri Lankan Rupees at foreign exchange rates ruling at the dates the values were determined.

1.5.2 Forward exchange contracts are valued at the forward market rates ruling on the date of the Balance Sheet. Unrealised gains and losses are dealt with through the Income Statement.

1.5.3 Transactions of the Off-shore Banking Centre and the overseas branches have been recorded in accordance with the paragraph 1.5.1 above except for the application of yearly average rate for the Income Statement.

1.6 Taxation

Provision for taxation is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 38 of 2000 and the amendments thereto, at the rates specified in Note No. 8.1 to the Financial Statements. Provision for taxation on the overseas branches is made on the basis of the profit for the year as adjusted for taxation purposes in accordance with the provisions of the relevant statutes.

1.7 Deferred Taxation

Deferred taxation is provided on the liability method and the balance of the Deferred Taxation Account represents income tax applicable to the difference between the written down values for tax purposes of the assets on which depreciation allowances are claimed and the net book value of such assets. Provision has not been made for deferred taxation on assets leased to customers since timing differences on these assets are not expected to reverse for the next three years and is unlikely to reverse within a reasonable period thereafter either, in view of the Bank maintaining the current scale of leasing activity. However, consequent to the revision of the Sri Lanka Accounting Standard No. 14 on Income Taxes, the Bank will have to provide deferred tax on assets leased to customers commencing from 2006.

The impact from the application of Sri Lanka Accounting Standard No. 14 (revised 2005) on Income Taxes is disclosed in Note No. 26 to the Financial Statements.

1.8 Comparative Figures

Amounts shown for the previous year in respect of lease receivables, Property, Plant & Equipment and Intangible Assets have been reclassified to facilitate comparison, in accordance with the substance of the transactions.

1.9 Events After the Balance Sheet Date

All the material events after the Balance Sheet date have been considered and appropriate adjustments/disclosures have been made in the Financial Statements, where necessary.

2. Assets and Bases of their Valuation

2.1 Advances to Customers

Advances to customers are stated in the Balance Sheet net of provisions for possible loan losses and net of interest, which is not accrued to revenue.

2.1.1 Provision for Loan Losses

Specific provisions for possible loan losses are based on a continuous review of the loans and advances portfolio in accordance with the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks and the parameters set by the Central Bank of Sri Lanka. Accordingly, specific provisions have been made as follows:

Period Outstanding	Classification	Minimum Provision made net of realisable value of security
6 to 12 months	Sub-standard	20%
12 to 18 months	Doubtful	50%
18 months and over	Loss	100%

Where necessary, provisions have been made over and above the minimum percentages on a case by case basis.

2.2 Foreclosed Properties

Foreclosed properties acquired in full or partial satisfaction of debts, are accounted for at the lower of cost or market value on an individual property basis. The shortfall between the prevailing market value of the foreclosed asset and the related loan outstanding is recognised as a provision for loan losses in the Income Statement in the year of taking over the foreclosed properties in satisfaction of the debt. Foreclosed properties are marked to market at least once during the financial year. Any shortfall is taken to the Income Statement.

Subsequent gains and losses on the disposal of the foreclosed assets are treated as provisions written back or charged to Income Statement, respectively.

2.3 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title are accounted for as finance leases.

Amounts receivable under finance leases net of initial rentals received, unearned lease income and provision for rentals doubtful of recovery are classified as Lease Receivable in the Balance Sheet.

2.3.1 Provision for Lease Receivable

Specific provision has been made in relation to identified bad and doubtful leases.

In addition, a general provision for possible losses on Lease Receivable is made at 0.5% of the total Lease Receivable, in conformity with the industry practice.

2.4 Credit Card Receivable

Amounts receivable on Credit Cards are included in advances to customers at the amounts expected to be recovered.

2.4.1 Provision for Credit Card Receivable

100% specific provision is made on Credit Card Receivable outstanding for 6 months and over.

In addition, a general provision is made at 3% on the capital included in Credit Card Receivable up to 6 months.

2.5 Government of Sri Lanka Treasury Bills and Bonds

2.5.1 Investments in Treasury Bills and Treasury Bonds held for Trading

Investments in Treasury Bills and Treasury Bonds in the trading portfolio are marked to market and carried at that value in the Balance Sheet. Gains and losses on mark to market valuation are dealt with through the Income Statement.

2.5.2 Investments in Treasury Bills and Treasury Bonds held to Maturity

Investments in Treasury Bills and Treasury Bonds held to maturity are reflected at the value of the Bills/Bonds purchased and the discount/premium accrued thereon. Discount received/premium paid is taken to the Income Statement based on a pattern reflecting a constant periodic rate of return, in accordance with the Sri Lanka Accounting Standard No. 22 on Accounting for Investments.

2.5.3 Securities Purchased under Re-sale Agreements

These are advances collateralised by purchase of Treasury Bills and Treasury Bonds from the public subject to a commitment to re-sell them at a predetermined price. Such securities remain on the Balance Sheet of the Bank and the asset is recorded in respect of the consideration paid and interest accrued thereon.

2.6 Investments

2.6.1 Dealing Securities

These are marketable securities acquired and held with the intention of resale over a short period of time. Such securities are marked to market at the Balance Sheet date.

2.6.2 Investment Securities

These are acquired and held for yield or capital growth in the medium to long term. Such securities are generally recorded at cost. Changes in market values of these securities are not taken into account, unless there is considered to be a diminution in value which is other than temporary.

2.6.3 Investments in Associates

Investments in associates are accounted for under the Cost Method in the Bank's Financial Statements and under the Equity Method in the Consolidated Financial Statements in accordance with the Sri Lanka Accounting Standard No. 27 on Accounting for Investments in Associates.

2.6.4 Investments in Subsidiaries

Investments in subsidiaries are stated at cost in the Bank's Financial Statements in accordance with the Sri Lanka Accounting Standard No. 26 on Consolidated Financial Statements and Accounting for Investments in Subsidiaries.

2.7 Property, Plant & Equipment

2.7.1 Property, Plant & Equipment are recorded at cost of purchase or construction or valuation together with any incidental expenses thereon. These assets are stated at cost/valuation less accumulated depreciation which is provided for on the basis specified in 2.7.2 below.

2.7.2 Depreciation is provided at the following rates on straight-line basis over the periods appropriate to the estimated useful lives of the different types of assets:

Leasehold properties	over the period of lease
Freehold buildings	2.5% per annum
Motor vehicles	20% per annum
Computer equipment	16.67% - 20.00% per annum
Office equipment	20% per annum
Furniture & fittings	10% per annum
Interior decorations	10% per annum
Machinery & Equipment	10% per annum

Depreciation is provided on a pro-rata basis on the assets purchased/constructed/disposed of during the year. Depreciation is not provided for freehold land.

However, full depreciation is provided on the assets purchased and used during the year in the Financial Statements of the Bank's subsidiaries, Commercial Development Co. Ltd., and ONEzero Co. Ltd., and depreciation is not provided on the assets disposed of during the year. The impact of this is disclosed in Note 21 to the Financial Statements.

2.7.3 The revaluation surplus included in equity will be transferred to retained earnings if the underlying assets are sold.

2.8 Intangible Assets

2.8.1 Basis of Recognition

An Intangible Asset is recognised if it is probable that future economic benefits that are attributable to the asset will flow to the enterprise and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard No. 37 on Intangible Assets. Accordingly, these assets are stated in the Balance Sheet at cost less accumulated amortisation.

2.8.2 Computer Software

Computer Software is stated at cost less accumulated amortisation. Amortisation is done at 16.67% per annum on cost.

2.8.3 Copyright

Cost incurred on copyrights are stated at cost less accumulated amortisation. Amortisation is done at 20% per annum on cost.

2.8.4 Subsequent Expenditure

Subsequent expenditure on Intangible Assets is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is expensed as incurred.

2.8.5 Amortisation

Intangible assets are amortised on a straight-line basis to the Income Statement, from the date when the asset is available for use, over the best estimate of its useful economic life.

2.8.6 Impairment

The unamortised balances of Intangible Assets are reviewed at each Balance Sheet date for impairment and recognised as expenses in the Income Statement to the extent that they are no longer probable of being recovered from the expected future benefits.

3. Liabilities and Provisions

3.1 Commitments and Contingencies

All discernible risks are accounted for in determining the amount of other liabilities. Bank's share of any contingencies and capital commitments of a subsidiary or an associate for which the Bank is also liable severally or otherwise is included with appropriate disclosures.

3.2 Defined Benefit Plans

3.2.1 Pensions and Retirement Benefits

3.2.1.1 Description of the Plan and Employee Groups Covered

The Bank has an approved Pension Fund, which was established in 1992. As per the Deed of Trust, only those employees who were less than 45 or 50 years of age depending on the retirement age applicable to the respective employees (55 years or 60 years) as at January 1, 1992 are covered by the Pension Fund in order to leave a minimum contribution for a period of 10 years before they are eligible to draw pension from the Pension Fund. Only the employees who joined the Bank on or before December 31, 2001 are in pensionable service of the Bank.

The pensions paid to those employees who retired on or before December 31, 2001 and on whose behalf the Bank could not make contributions to the Pension Fund for more than 10 years, is charged to the Income Statement.

3.2.1.2 Funding Arrangements

The Bank contributes to the Pension Fund and the Widows' & Orphans' Pension Scheme monthly based on a percentage of gross emoluments excluding certain allowances and bonus of the pensionable employees. The percentages of contribution are as recommended by the Actuary. The Pension Fund is non-contributory while employees contribute 75% of the recommended contribution rate to the Widows' & Orphans' Pension Scheme.

3.2.1.3 Actuarial Valuation and Actuarial Valuation Method

An actuarial valuation is undertaken at least every three years to ascertain the full liability. The liability is calculated on an ongoing basis.

An Actuarial Valuation of the Pension Fund and the Widows' & Orphans' Pension Scheme was carried out as at December 31, 2005 by M/s. Actuarial & Management Consultants (Pvt.) Ltd. The Valuation has been carried out based on the Projected Unit Credit method, the benchmark treatment recommended by the Sri Lanka Accounting Standard No. 16 on Retirement Benefits Costs.

3.2.1.4 Principal Actuarial Assumptions

The principal financial assumptions used in the Valuation are as follows:

Long-term rate of interest	11% per annum
Salary increases	11% per annum

The demographic assumptions underlying the valuation are retirement age (55 or 60 years), early withdrawals from service, retirement on medical grounds, death before and after retirement, etc.

The recommended contribution rate for the future has been agreed based on the above assumptions.

3.2.1.5 Surplus in the Pension Fund/Unfunded Pension Liability

The results revealed that the fair value of the fund's assets is Rs. 2,634.940 million and that the actuarial present value of the promised retirement benefits is Rs. 2,408.618 million resulting in a surplus of Rs. 226.322 million, as at December 31, 2005 (The past service deficit was Rs. 1,198.258 million in 2004) in the Pension Fund and the Widows' & Orphans' Pension Scheme due to the changes in actuarial assumptions (i.e. interest rate, salary increases, etc.) that took place since the previous actuarial valuation as at April 30, 2004.

Accordingly, the Actuary recommended that the past service surplus be amortised over the full future working lifetime of the employees by reducing the regular contribution rate on account current service cost. Commencing January 1, 2006, contributions are made to the Pension Fund and to the Widows' and Orphans' Pension Scheme at these reduced rates by the Bank and the employees.

3.2.1.6 Management of the Fund's Assets

The assets of the Pension Fund and the Widows' & Orphans' Pension Scheme are held separately from those of the Bank and are independently administered by the Trustees as per the provisions of the Trust Deed.

3.2.2 *Gratuity*

Provision has not been made in these Financial Statements for gratuity payable under the Payment of Gratuity Act No. 12 of 1983 to those employees who joined the Bank on or before December 31, 2001, as they are in pensionable service of the Bank and that the Bank has its own non-contributory retirement pension scheme in force. However, if any of these employees who is eligible for gratuity resigns before retirement the Bank is liable to pay gratuity to such employees.

Provision has been made in these Financial Statements for retirement gratuities from the first year of service for all the employees who joined the Bank on or after January 1, 2002, as they are not in pensionable service of the Bank, in conformity with the Sri Lanka Accounting Standard No.16 on Retirement Benefits Costs. However, under the Payment of Gratuity Act No.12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. The gratuity liability is unfunded and an actuarial valuation has not been carried out.

3.3 **Defined Contribution Plans**

Contributions to the following defined contribution pension plans are recognised as an expense in the Income Statement as incurred.

3.3.1 *Employees' Provident Fund*

The Bank and employees contribute to the approved private Provident Fund at 12% and 8% respectively.

3.3.2 *Employees' Trust Fund*

The Bank contributes to the Employees' Trust Fund at 3%.

3.4 **Securities sold under Re-purchase Agreements**

These are borrowings collateralised by sale of Treasury Bills and Treasury Bonds held by the Bank to the counterparty from whom the Bank borrowed, subject to a commitment to re-purchase them at a pre-determined price. Such securities remain on the Balance Sheet of the Bank and the liability is recorded in respect of the consideration received and interest accrued thereon.

3.5 Provisions for Liabilities

A provision is recognised in the Balance Sheet when the Bank has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations, in accordance with the Sri Lanka Accounting Standard No. 36 on Provisions, Contingent Liabilities and Contingent Assets.

4. Income Statement

4.1 Revenue Recognition

4.1.1 Interest Income

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest receivable is recognised on accrual basis. Interest ceases to be taken into revenue when the recovery of interest and/or principal is in arrears for three months or more. Interest receivable on advances classified as non-performing is accounted for on cash basis. Interest falling due on non-performing advances is credited to Interest in Suspense Account. In addition, interest accrued up to three months on such non-performing advances is also eliminated from the interest income and transferred to interest in suspense.

4.1.2 Lease Income

In terms of the provisions of the Sri Lanka Accounting Standard No. 19 on Leases, the recognition of finance income on leasing is done based on a pattern reflecting a constant periodic rate of return on capital outstanding.

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned finance income at the commencement of a lease. The unearned finance income included in the lease rentals receivable is taken into revenue over the term of the lease commencing from the month in which the lease is executed in proportion to the capital outstanding.

Finance income in respect of lease rentals due ceases to be taken to revenue when they are in arrears for three months. Thereafter such income is recognised on cash basis. Interest accrued up to three months on such non-performing leases is also eliminated from the interest income and transferred to interest in suspense.

4.1.3 Income on Discounting of Bills of Exchange

Income on discounting of Bills of Exchange is recognised proportionately over the period of the instrument.

4.1.4 Fees and Commission Income

Fees and commission income arises on financial services provided by the Group including Trade Finance, Travel, Investment Banking, e-Banking, Credit Cards, Legal, etc. Fees and commission income other than fees receivable on Credit Cards are recognised on cash basis.

4.1.5 Dividend Income on Shares and Units

Dividend income from shares and units is recognised in the period in which they are declared and approved.

4.1.6 Interest Income on Investments in Debentures and Trust Certificates

Interest income on investments in Debentures and Trust Certificates is recognised on accrual basis.

4.1.7 Rental Income

Rental income is recognised on accrual basis.

4.1.8 Interest and Fees Receivable on Credit Cards

Interest and fees receivable on Credit Cards are recognised on accrual basis. Interest and fees cease to be taken into revenue when the recovery of interest or fees is in arrears for over three months. Thereafter, interest and fees are accounted for on cash basis.

4.1.9 Gains and Losses on Disposal of Property, Plant & Equipment, Dealing Securities, Investment Securities and Foreclosed Properties

Gains and losses resulting from the disposal of Property, Plant & Equipment, Dealing Securities, Investment Securities and Foreclosed Properties have been accounted for on cash basis in the Income Statement.

4.2 Interest and Other Expenses

In terms of the provisions of the Sri Lanka Accounting Standard No. 23 on Revenue Recognition and Disclosures in the Financial Statements of Banks, the interest and other expenses payable are recognised on accrual basis in the Income Statement.

4.3 Borrowing Costs

Costs incurred in respect of funds specifically obtained for the acquisition of the Property, Plant & Equipment have been recognised as an expense in the Income Statement, in the period in which they are incurred in terms of the Sri Lanka Accounting Standard No. 20 on Borrowing Costs.

4.4 Terminal Benefits

The actual amounts paid as pension and retirement gratuities to those employees, who are not covered by the Pension Fund as per 3.2.1 above, are charged to the Income Statement. The actual amounts paid as pension to those employees who are covered by the Pension Fund are borne by the Retirement Pension Fund.

4.5 Off-Balance Sheet Transactions

The Bank enters into off-balance sheet transactions such as forward exchange transactions. At the year-end, unrealised gains and losses are dealt with through the Income Statement.

5. Cash Flow Statement

The Cash Flow Statement has been prepared by using the "Direct Method" of preparing cash flows in accordance with the Sri Lanka Accounting Standard No. 9 on Cash Flow Statements. Cash and cash equivalents comprise mainly of cash balances, loans at call and short term placements/balances with foreign banks.

6. Segmental Reporting

A segment is a distinguishable component of the Group that is engaged in providing services (Business Segment) or in providing services within a particular economic environment (Geographical Segment) which is subject to risks and rewards that are different from those of other segments.

In accordance with the Sri Lanka Accounting Standard No. 28 on Segment Reporting, segmental information is presented in respect of the Group. The segments comprise of banking, leasing, dealing and property/investment.

Inter-segment transactions are based on fair market prices.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly of Head Office expenses.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets that are expected to be used for more than one period.

7. Directors' Responsibility Statement

The Board of Directors takes the responsibility for the preparation and presentation of these Financial Statements. Please refer page 75 for the Statement of Directors' Responsibility for Financial Reporting.

1. Interest Income

	Bank		Group	
	2005	2004	2005	2004
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Customer advances	11,046,384	7,769,074	11,034,611	7,761,166
Treasury Bills, Treasury Bonds, Placements with other Banks and other Money Market instruments	1,986,458	1,814,729	2,258,180	2,016,390
	<u>13,032,842</u>	<u>9,583,803</u>	<u>13,292,791</u>	<u>9,777,556</u>

Since April 1, 2002, net interest income from Treasury Bills and Treasury Bonds has been grossed up by adding the notional tax credit, consequent to the interest income on Treasury Bills and Treasury Bonds being subjected to withholding tax as detailed in Note 8.1.

2. Interest Expenses

Customer deposits	5,568,394	3,575,199	5,561,822	3,570,988
Debentures	371,049	236,010	371,049	236,010
Short term borrowings and refinance	1,114,642	995,009	1,353,584	1,160,492
Other interest expenses	171,975	71,907	171,975	71,907
	<u>7,226,060</u>	<u>4,878,125</u>	<u>7,458,430</u>	<u>5,039,397</u>

3. Other Income

Income from investment securities (quoted)	50,410	49,789	50,410	49,789
Income from investment securities (unquoted)	248,533	106,066	249,287	106,759
Income from investments in associates (quoted)	21,270	11,575	21,270	11,575
Income from investments in associates (unquoted)	3,264	-	3,264	-
Income from investments in subsidiaries (quoted)	11,232	41,866	-	-
Income from investments in subsidiaries (unquoted)	95,850	-	-	-
Income from Unit Trust Company	10,113	7,585	10,113	7,585
Bad debts recovered (including recovery of debts written-off)	198,949	215,725	198,949	215,725
Profit on sale of Property, Plant & Equipment	31,008	352	33,323	11,728
Rental and other income	29,997	30,629	49,339	32,824
Profit on sale of Shares	16,054	60,302	16,054	60,302
Gain/(Loss) on Mark to Market Valuation/ Realised Capital Gains/(Losses)	3,504	(68,677)	(21,423)	(76,100)
	<u>720,184</u>	<u>455,212</u>	<u>610,586</u>	<u>420,187</u>
Less: Dividends received from associate companies transferred to the Investments in Associate Companies Account	-	-	24,534	11,575
	<u>720,184</u>	<u>455,212</u>	<u>586,052</u>	<u>408,612</u>

4. Operating Expenses

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Operating expenses include the following:				
Executive Director's emoluments	21,255	17,773	21,273	17,791
Directors' emoluments	6,596	6,777	6,704	6,885
Auditors' remuneration	3,814	2,808	4,037	3,029
Non-Audit fees	1,056	1,386	1,150	1,515
Terminal benefits	18,253	18,901	18,253	18,901
Pensions paid to past Directors	1,881	1,712	1,881	1,712
Depreciation/amortisation	299,167	260,347	328,868	284,757
Professional and legal expenses	50,169	42,121	50,362	42,140
Donations	1,348	3,562	1,348	3,562
Donation to CSR Trust	8,500	25,000	8,500	25,000
Employer's contribution to Employees' Provident Fund	117,658	102,683	118,642	103,199
Employer's contribution to Employees' Trust Fund	28,108	24,278	28,353	24,407
Gratuity provision/paid	14,711	11,241	15,203	12,137
Financial VAT on profits	622,936	441,116	624,605	442,276

5. Provision for Staff Retirement Benefits

A sum of Rs. 235.971 million (Rs. 325.740 million in 2004) has been charged against profits being the total contributions for the year to the approved Pension Fund and Widows' & Orphans' Pension Scheme.

6. Loan Losses and Provisions

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Provision for bad & doubtful debts:				
Specific provision on Bills of Exchange	979	5,516	979	5,516
Specific provision on loans and advances	368,076	734,698	368,076	734,698
General provision on credit card receivables	7,671	2,747	7,671	2,747
Specific provision on credit card receivables	4,103	(336)	4,103	(336)
General provision on lease receivable (Note 17.4)	8,575	7,200	8,575	7,200
Specific provision on lease receivable (Note 17.4)	20,449	25,110	20,449	25,110
Total provisions made during the year	409,853	774,935	409,853	774,935
Reversal of general provision on lease receivable (Note 17.4)	-	(84,873)	-	(84,873)
	409,853	690,062	409,853	690,062
Direct write-offs	5,011	9,138	5,011	9,138
	414,864	699,200	414,864	699,200

7. Share of Profit/(Loss) before Tax of Associate Companies

Commercial Leasing Co. Ltd.	-	-	93,820	70,965
Equity Investments Lanka Ltd.	-	-	1,265	2,155
Commercial Fund Management (Pvt) Ltd.	-	-	5,377	3,236
	-	-	100,462	76,356

8. Provision for Taxation

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
8.1 Charge to taxation is as follows:				
Bank				
Income tax on profits for the year	1,327,549	867,543	1,327,549	867,543
Over provision for taxation in previous years	(37,129)	(39,426)	(76,173)	(39,426)
Transfer/(Reversal) to deferred taxation	(12,700)	(8,900)	(12,700)	(8,900)
	1,277,720	819,217	1,238,676	819,217
Subsidiary Companies				
Income tax on profits of Commercial Development Co. Ltd.	-	-	17,703	19,833
Income tax on profits of Commercial Bank Primary Dealer Ltd.	-	-	7,144	-
Income tax on profits of ONEzero Co. Ltd.	-	-	-	-
Income tax on profits of X-pertise Ltd.	-	-	191	-
Associate Companies				
Income tax on profits of Commercial Leasing Co. Ltd.	-	-	29,977	21,425
Income tax on profits of Equity Investments Lanka Ltd.	-	-	23	19
Income tax on profits of Commercial Fund Management (Pvt) Ltd.	-	-	1,938	1,014
WHT deducted on dividend payments by subsidiary and associate companies	-	-	14,317	5,862
	1,277,720	819,217	1,309,969	867,370

Income tax has been provided on the taxable income at the following rates:

	2005	2004
Domestic operations of the Bank	30.00%	30.00%
On-shore banking operations of the Off-shore Banking Centre of the Bank	30.00%	30.00%
Off-shore banking operations of the Off-shore Banking Centre of the Bank (from April 1, 2004)	20.00%	20.00%
Operations of the Bangladesh branches	45.00%	45.00%
Commercial Development Co. Ltd.	30.00%	30.00%
Commercial Bank Primary Dealer Ltd.	32.50%	32.50%
ONEzero Co. Ltd.	-	-
X-pertise Ltd.	20.00%	N/A

Notional Tax Credit for Withholding Tax on Government Securities on Secondary Market Transactions

The Inland Revenue (Amendment) Act No. 19 of 2003, provides that a company which derives interest income from the secondary market transactions in Government securities (on or after April 1, 2002) would be entitled to a notional tax credit (being one ninth of the net interest income) provided such interest income forms part of the statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned by the Bank and Commercial Bank Primary Dealer Ltd. from the secondary market transactions in Government securities for the year/period, has been grossed up in the Financial Statements and the resulting notional tax credit amounts to Rs. 11.095 million (Rs. 51.493 million in 2004) and Rs. 3.010 million (Rs. 1.424 million in 2004) respectively.

8.2 Reconciliation of Accounting Profit and Taxable Income:

	Bank	
	2005 Rs.'000	2004 Rs.'000
Net profit as per the Income Statement	3,641,960	2,503,931
Add: Disallowable expenses	4,600,143	3,385,322
	8,242,103	5,889,253
Less: Allowable expenses	3,604,812	3,185,997
Less: Exempt income	414,034	212,904
Statutory income from business	4,223,257	2,490,352
Less: Dividend/Interest from primary market activities	190,169	107,102
Add: Non-business income	53,310	193,135
Assessable income	4,086,398	2,576,385
Less: Qualifying payments	663	965
Taxable income	4,085,735	2,575,420

	Bank	
	2005 Rs. '000	2004 Rs. '000
Income tax provision for the year is made up as follows:		
Income tax on profit of the Domestic Banking Unit	891,601	562,061
Income tax on profit of the Off-shore Banking Centre	106,084	97,232
Income tax on profit of the operations of Bangladesh branches	329,864	208,250
Over provision for taxation in previous years	(37,129)	(39,426)
Provision for/(Reversal of) deferred tax	(12,700)	(8,900)
	1,277,720	819,217
Effective tax rate (excluding deferred tax)	35.43%	33.07%

9. Earnings per Ordinary Share

Earnings per ordinary share has been calculated by dividing the profit after taxation and dividends on Preference Shares by the average number of ordinary shares in issue (both voting and non-voting) during the year determined by weighting the shares in issue on a time basis as required by the Sri Lanka Accounting Standard No. 34 on Earnings per Share. The corresponding figures for the previous years have been adjusted accordingly.

	Bank		Group	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Profit after taxation and minority interest	2,364,240	1,684,714	2,356,438	1,725,359
Less: Dividends on Cumulative Redeemable Preference Shares	230,352	230,352	230,352	230,352
Profit attributable to Ordinary Shareholders	2,133,888	1,454,362	2,126,086	1,495,007
Number of Ordinary Shares used as Denominator	142,080,982	142,080,982	142,080,982	142,080,982
Basic Earnings per Ordinary Share (Rs.)	15.02	10.24	14.96	10.52
Number of Ordinary Shares including dilutive Ordinary Shares used as Denominator	143,790,069	143,790,069	143,790,069	143,790,069
Diluted Earnings per Ordinary Share (Rs.)	14.84	10.11	14.79	10.40

10. Dividends

	Bank		Group	
	2005 Interim 15% (paid on Nov. 29, '05) Rs. '000	2004 Interim 20% (paid on Nov. 29, '04) Rs. '000	2005 Interim 15% (paid on Nov. 29, '05) Rs. '000	2004 Interim 20% (paid on Nov. 29, '04) Rs. '000
On Ordinary Shares				
Net dividend paid to the Shareholders	201,979	133,951	201,979	133,951
Withholding tax deducted at source	11,142	5,409	11,142	5,409
Gross dividend	213,121	139,360	213,121	139,360
On Preference Shares				
Dividend payable on Cumulative Redeemable Preference Shares of Rs. 10/- each for the year				
Net dividend payable/paid	207,317	207,317	207,317	207,317
Withholding tax to be deducted/deducted at source	23,035	23,035	23,035	23,035
Gross dividend	230,352	230,352	230,352	230,352
Total dividend	443,473	369,712	443,473	369,712

15% interim dividend paid in November 2005 to the Ordinary Shareholders was partly paid out of the exempt dividends received by the Bank. The effective interim dividend rate was 15.6% for the year (21.2% for 2004).

Directors have recommended the payment of a final dividend of 30% for the year ended December 31, 2005 (40% in 2004), which will be declared at the Annual General Meeting to be held on March 30, 2006. In accordance with the Sri Lanka Accounting Standard No. 12 on Events After the Balance Sheet Date, this proposed final dividend has not been recognised as a liability as at the year end.

11. Unappropriated Profit/(Loss) carried forward

	Bank		Group	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Commercial Bank of Ceylon Ltd.	427,238	278,856	353,027	204,645
Subsidiary Companies				
Commercial Development Co. Ltd.	–	–	30,300	14,312
Commercial Bank Primary Dealer Ltd.	–	–	41,451	117,667
ONEzero Co. Ltd.	–	–	11,828	268
X-pertise Ltd.	–	–	(705)	–
Associate Companies				
Commercial Leasing Co. Ltd.	–	–	174,327	134,118
Equity Investments Lanka Ltd.	–	–	(4,409)	(3,596)
Commercial Fund Management (Pvt) Ltd.	–	–	5,790	3,615
	427,238	278,856	611,609	471,029

12. Cash and Short Term Funds

Coins and notes held in local currency	2,305,679	1,600,255	2,299,585	1,600,264
Coins and notes held in foreign currency	257,177	921,601	257,177	921,601
Current Account with Central Bank of Sri Lanka	–	–	–	100
Placements/balances with foreign banks	15,723,987	9,049,451	15,723,987	9,049,451
Loans at call and short notice	376,010	564,300	376,010	564,300
	18,662,853	12,135,607	18,656,759	12,135,716

13. Balances with Central Banks

Bank's Current Account with Central Bank of Sri Lanka	7,307,846	4,953,124	7,307,846	4,953,124
Bank's Current Account with Bangladesh Bank	1,737,334	1,366,556	1,737,334	1,366,556
	9,045,180	6,319,680	9,045,180	6,319,680

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. As at December 31, 2005 the minimum cash reserve requirement was 10% of the rupee deposit liabilities. There is no reserve requirement for foreign currency deposit liabilities of the Domestic Banking Unit and the deposit liabilities of the Off-shore Banking Centre.

14. Government Treasury Bills and Bonds

	Bank		Group	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Government Treasury Bills and Bonds held for trading	3,119,159	–	3,119,159	553,868
Government Treasury Bills and Bonds held to maturity	15,785,313	5,521,750	16,040,726	6,092,853
	18,904,472	5,521,750	19,159,885	6,646,721

15. Dealing Securities

	As at 31.12.05		Bank		As at 31.12.05		Group	
	Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Quoted								
SHARES								
Hatton National Bank Ltd. (25,000 Ordinary Shares of Rs.10/- each) (52,400 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	2,050	2,813 (@ Rs. 112.50)	3,798	2,987 (@ Rs. 57.00)	2,050	2,813 (@ Rs. 112.50)	3,798	2,987 (@ Rs. 57.00)
National Development Bank (68,900 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	-	-	10,406	11,024 (@ Rs. 160.00)	-	-	10,406	11,024 (@ Rs. 160.00)
Nations Trust Bank Ltd. (150,000 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	3,830	3,525 (@ Rs. 23.50)	-	-	3,830	3,525 (@ Rs. 23.50)	-	-
Central Finance Co. Ltd. (22,700 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	-	-	5,635	6,129 (@ Rs. 270.00)	-	-	5,635	6,129 (@ Rs. 270.00)
Union Assurance Ltd. (75,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	-	-	4,078	3,375 (@ Rs. 45.00)	-	-	4,078	3,375 (@ Rs. 45.00)
Distilleries Company of Sri Lanka Ltd. (100,000 Ordinary Shares of Rs.1/- each) (325,000 Ordinary Shares of Rs.1/- each as at December 31, 2004)	3,952	3,500 (@ Rs. 35.00)	9,722	9,263 (@ Rs. 28.50)	3,952	3,500 (@ Rs. 35.00)	9,722	9,263 (@ Rs. 28.50)
Lion Brewery Ceylon Ltd. (84,700 Ordinary Shares of Rs.10/- each as at December 31, 2004)	-	-	5,391	5,167 (@ Rs. 61.00)	-	-	5,391	5,167 (@ Rs. 61.00)
Haycarb Ltd. (100,000 Ordinary Shares of Rs.10/- each) (50,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	4,353	3,325 (@ Rs. 33.25)	2,025	2,125 (@ Rs. 42.50)	4,353	3,325 (@ Rs. 33.25)	2,025	2,125 (@ Rs. 42.50)
Colombo Dockyard Ltd. (149,400 Ordinary Shares of Rs.10/- each) (118,700 Ordinary Shares of Rs.10/- each as at December 31, 2004)	4,470	3,324 (@ Rs. 22.25)	2,907	2,671 (@ Rs. 22.50)	4,470	3,324 (@ Rs. 22.25)	2,907	2,671 (@ Rs. 22.50)
Hayleys Ltd. (65,000 Ordinary Shares of Rs.10/- each) (61,500 Ordinary Shares of Rs.10/- each as at December 31, 2004)	7,157	6,305 (@ Rs. 97.00)	7,524	7,764 (@ Rs. 126.25)	7,157	6,305 (@ Rs. 97.00)	7,524	7,764 (@ Rs. 126.25)
Hemas Holdings Ltd. (81,650 Ordinary Shares of Rs.10/- each) (26,300 Ordinary Shares of Rs.10/- each as at December 31, 2004)	8,375	8,471 (@ Rs. 103.75)	2,230	2,538 (@ Rs. 96.50)	8,375	8,471 (@ Rs. 103.75)	2,230	2,538 (@ Rs. 96.50)
John Keells Holdings Ltd. (127,300 Ordinary Shares of Rs.10/- each) (60,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	19,308	16,454 (@ Rs. 129.25)	6,546	6,600 (@ Rs. 110.00)	19,308	16,454 (@ Rs. 129.25)	6,546	6,600 (@ Rs. 110.00)

	Bank				Group			
	As at 31.12.05		As at 31.12.04		As at 31.12.05		As at 31.12.04	
	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
Aitken Spence Hotel Holdings Ltd. (100,000 Ordinary Shares of Rs.10/- each) (23,200 Ordinary Shares of Rs.10/- each as at December 31, 2004)	9,867	6,800 (@ Rs. 68.00)	2,109	2,129 (@ Rs. 91.75)	9,867	6,800 (@ Rs. 68.00)	2,109	2,129 (@ Rs. 91.75)
AHOT Properties Ltd. (342,100 Ordinary Shares of Rs.10/- each) (250,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	14,491	14,197 (@ Rs. 41.50)	7,223	7,375 (@ Rs. 29.50)	14,491	14,197 (@ Rs. 41.50)	7,223	7,375 (@ Rs. 29.50)
Confifi Hotel Holdings Ltd. (59,600 Ordinary Shares of Rs.10/- each) (59,600 Ordinary Shares of Rs.10/- each as at December 31, 2004)	3,927	2,712 (@ Rs. 45.50)	3,927	3,159 (@ Rs. 53.00)	3,927	2,712 (@ Rs. 45.50)	3,927	3,159 (@ Rs. 53.00)
Connaissance Holdings Ltd. (342,500 Ordinary Shares of Rs.10/- each) (175,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	14,924	12,844 (@ Rs. 37.50)	8,344	7,569 (@ Rs. 43.25)	14,924	12,844 (@ Rs. 37.50)	8,344	7,569 (@ Rs. 43.25)
Galadari Hotels (Lanka) Ltd. (20,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	-	-	302	320 (@ Rs. 16.00)	-	-	302	320 (@ Rs. 16.00)
Eden Hotel Lanka Ltd. (100,000 Ordinary Shares of Rs.10/- each) (100,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	2,273	1,150 (@ Rs. 11.50)	2,273	1,750 (@ Rs. 17.50)	2,273	1,150 (@ Rs. 11.50)	2,273	1,750 (@ Rs. 17.50)
Riverina Hotels Ltd. (51,500 Ordinary Shares of Rs.10/- each) (51,500 Ordinary Shares of Rs.10/- each as at December 31, 2004)	2,327	1,120 (@ Rs. 21.75)	2,327	2,060 (@ Rs. 40.00)	2,327	1,120 (@ Rs. 21.75)	2,327	2,060 (@ Rs. 40.00)
Taj Lanka Hotels Ltd. (250,400 Ordinary Shares of Rs.10/- each) (155,400 Ordinary Shares of Rs.10/- each as at December 31, 2004)	4,740	3,005 (@ Rs. 12.00)	3,411	3,030 (@ Rs. 19.50)	4,740	3,005 (@ Rs. 12.00)	3,411	3,030 (@ Rs. 19.50)
Colombo Land & Development Co. Ltd. (300,000 Ordinary Shares of Rs.1/- each) (300,000 Ordinary Shares of Rs.1/- each as at December 31, 2004)	2,187	900 (@ Rs. 3.00)	2,187	1,275 (@ Rs. 4.25)	2,187	900 (@ Rs. 3.00)	2,187	1,275 (@ Rs. 4.25)
Colombo Land & Development Co. Ltd. - Options (120,000 Options of Rs.1/- each as at December 31, 2004)	-	-	120	120 (@ Rs. 1.00)	-	-	120	120 (@ Rs. 1.00)
Dipped Products Ltd. (67,100 Ordinary Shares of Rs.10/- each) (31,500 Ordinary Shares of Rs.10/- each as at December 31, 2004)	6,317	5,033 (@ Rs. 75.00)	3,209	3,497 (@ Rs. 111.00)	6,317	5,033 (@ Rs. 75.00)	3,209	3,497 (@ Rs. 111.00)
Richard Pieris & Co. Ltd. (112,400 Ordinary Shares of Rs.10/- each) (46,500 Ordinary Shares of Rs.10/- each as at December 31, 2004)	9,936	7,615 (@ Rs. 67.75)	4,502	5,580 (@ Rs. 120.00)	9,936	7,615 (@ Rs. 67.75)	4,502	5,580 (@ Rs. 120.00)
Kelani Valley Plantations Ltd. (60,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	-	-	1,052	1,050 (@ Rs. 17.50)	-	-	1,052	1,050 (@ Rs. 17.50)

Notes to the Financial Statements

	Bank				Group			
	As at 31.12.05		As at 31.12.04		As at 31.12.05		As at 31.12.04	
	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000	Cost Rs.'000	Market Value Rs.'000
Lanka IOC Ltd. (250,000 Ordinary Shares of Rs.10/- each) (120,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	12,167	8,250 (@ Rs. 33.00)	4,988	5,190 (@ Rs. 43.25)	12,167	8,250 (@ Rs. 33.00)	4,988	5,190 (@ Rs. 43.25)
Sri Lanka Telecom Ltd. (325,000 Ordinary Shares of Rs.10/- each) (375,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	6,418	5,363 (@ Rs. 16.50)	7,171	5,813 (@ Rs. 15.50)	6,418	5,363 (@ Rs. 16.50)	7,171	5,813 (@ Rs. 15.50)
Merchant Bank of Sri Lanka Ltd. (153,614 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	4,627	2,189 (@ Rs. 14.25)	-	-	4,627	2,189 (@ Rs. 14.25)	-	-
HDFC Bank of Sri Lanka (38,000 Ordinary Shares of Rs.100/- each) (As at December 31, 2004 - Nil)	8,493	7,258 (@ Rs. 191.00)	-	-	8,493	7,258 (@ Rs. 191.00)	-	-
Mercantile Leasing Ltd. (100,000 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	5,264	5,200 (@ Rs. 52.00)	-	-	5,264	5,200 (@ Rs. 52.00)	-	-
The Fortress Resorts Ltd. (99,939 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	1,860	1,249 (@ Rs. 12.50)	-	-	1,860	1,249 (@ Rs. 12.50)	-	-
John Keells Hotels Ltd. (125,000 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	11,242	10,125 (@ Rs. 81.00)	-	-	11,242	10,125 (@ Rs. 81.00)	-	-
C T Land & Development Ltd. (109,800 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	1,505	1,318 (@ Rs. 12.00)	-	-	1,505	1,318 (@ Rs. 12.00)	-	-
Asha Central Hospitals Ltd. (99,100 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	3,660	2,354 (@ Rs. 23.75)	-	-	3,660	2,354 (@ Rs. 23.75)	-	-
Asiri Medical Services Ltd. (2,000,000 Ordinary Shares of Rs.1/- each) (As at December 31, 2004 - Nil)	6,914	6,000 (@ Rs. 3.00)	-	-	6,914	6,000 (@ Rs. 3.00)	-	-
Tokyo Cement Co. (Lanka) Ltd. (350,000 Ordinary Non-Voting Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	6,174	4,200 (@ Rs. 12.00)	-	-	6,174	4,200 (@ Rs. 12.00)	-	-
Ceylon Glass Co. Ltd. (800,000 Ordinary Shares of Rs.1/- each) (As at December 31, 2004 - Nil)	4,063	1,800 (@ Rs. 2.25)	-	-	4,063	1,800 (@ Rs. 2.25)	-	-
Dankotuwa Porcelain Ltd. (50,000 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	1,014	750 (@ Rs. 15.00)	-	-	1,014	750 (@ Rs. 15.00)	-	-
Royal Ceramics Ltd. (700,000 Ordinary Shares of Rs.1/- each) (As at December 31, 2004 - Nil)	2,836	2,100 (@ Rs. 3.00)	-	-	2,836	2,100 (@ Rs. 3.00)	-	-

	As at 31.12.05		Bank		As at 31.12.05		Group	
	Cost	Market Value	Cost	Market Value	Cost	Market Value	Cost	Market Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Lanka Walltiles Ltd. (312,500 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	13,978	10,234 (@ Rs. 32.75)	-	-	13,978	10,234 (@ Rs. 32.75)	-	-
Kelani Cables Ltd. (46,700 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	2,821	3,257 (@ Rs. 69.75)	-	-	2,821	3,257 (@ Rs. 69.75)	-	-
Vidul Lanka Ltd. (50,000 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	1,519	1,063 (@ Rs. 21.25)	-	-	1,519	1,063 (@ Rs. 21.25)	-	-
John Keells Ltd. (30,300 Ordinary Shares of Rs.10/- each) (As at December 31, 2004 - Nil)	3,006	2,727 (@ Rs. 90.00)	-	-	3,006	2,727 (@ Rs. 90.00)	-	-
Dialog Telekom Ltd. (225,000 Ordinary Shares of Rs.1/- each) (As at December 31, 2004 - Nil)	3,442	3,713 (@ Rs. 16.50)	-	-	3,442	3,713 (@ Rs. 16.50)	-	-
	225,487	182,243	113,407	109,560	225,487	182,243	113,407	109,560
Diminution in Value	(43,244)		(3,847)		(43,244)		(3,847)	
	182,243		109,560		182,243		109,560	

16. Investment Securities

	As at 31.12.05		Bank		As at 31.12.05		Group	
	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Quoted SHARES								
Hatton National Bank Ltd. (3,850 Ordinary Shares of Rs. 10/- each) (3,850 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	315	433 (@ Rs. 112.50)	315	219 (@ Rs. 57.00)	315	433 (@ Rs. 112.50)	315	219 (@ Rs. 57.00)
Sampath Bank Ltd. (1,554 Ordinary Shares of Rs. 10/- each) (1,554 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	72	140 (@ Rs. 90.00)	72	98 (@ Rs. 62.75)	72	140 (@ Rs. 90.00)	72	98 (@ Rs. 62.75)
Seylan Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each) (1,000 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	24	37 (@ Rs. 36.75)	24	30 (@ Rs. 30.00)	24	37 (@ Rs. 36.75)	24	30 (@ Rs. 30.00)
DFCC Bank (7,770,278 Ordinary Shares of Rs. 10/- each) (7,770,278 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	1,146,107	1,709,461 (@ Rs. 220.00)	1,146,107	1,600,677 (@ Rs. 206.00)	1,146,107	1,709,461 (@ Rs. 220.00)	1,146,107	1,600,677 (@ Rs. 206.00)
Nations Trust Bank Ltd. (1,000 Ordinary Shares of Rs. 10/- each) (1,000 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	14	24 (@ Rs. 23.50)	14	18 (@ Rs. 18.00)	14	24 (@ Rs. 23.50)	14	18 (@ Rs. 18.00)
NDB bank (1,808 Ordinary Shares of Rs. 10/- each)	215	380 (@ Rs. 210.00)	-	-	215	380 (@ Rs. 210.00)	-	-
(1,500 Ordinary Shares of Rs. 10/- each as at December 31, 2004 in National Development Bank)	-	-	198	240 (@ Rs. 159.75)	-	-	198	240 (@ Rs. 159.75)
(1,725 Ordinary Shares of Rs. 10/- each as at December 31, 2004 in NDB Bank)	-	-	17	45 (@ Rs. 26.00)	-	-	17	45 (@ Rs. 26.00)

Notes to the Financial Statements

	Bank				Group			
	As at 31.12.05		As at 31.12.04		As at 31.12.05		As at 31.12.04	
	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
DEBENTURES								
Sri Lanka Telecom Ltd. (13% - 2005) (2,500 Debentures of Rs. 1,000/- each as at December 31, 2004)	-	-	2,500	625 (@ Rs. 250.00)	-	-	2,500	625 (@ Rs. 250.00)
Hatton National Bank Ltd. (12% - 2007) (60,000 Debentures of Rs.100/- each) (60,000 Debentures of Rs.100/- each as at December 31, 2004)	6,000	6,015 (@ Rs. 100.25)	6,000	6,000 (@ Rs. 100.00)	6,000	6,015 (@ Rs. 100.25)	6,000	6,000 (@ Rs. 100.00)
Hatton National Bank Ltd. (10% - 2008) (100,000 Debentures of Rs.100/- each) (100,000 Debentures of Rs.100/- each as at December 31, 2004)	10,000	9,225 (@ Rs. 92.25)	10,000	8,500 (@ Rs. 85.00)	10,000	9,225 (@ Rs. 92.25)	10,000	8,500 (@ Rs. 85.00)
Sampath Bank Ltd. (14% - 2009) (70,000 Debentures of Rs.100/- each) (70,000 Debentures of Rs.100/- each as at December 31, 2004)	7,000	6,965 (@ Rs. 99.50)	7,000	7,000 (@ Rs. 100.00)	7,000	6,965 (@ Rs. 99.50)	7,000	7,000 (@ Rs. 100.00)
Senkadagala Finance Ltd. (9% - 2009) (100,000 Debentures of Rs. 100/- each) (As at December 31, 2004 - Nil)	10,000	10,000 (@ Rs. 100.00)	-	-	10,000	10,000 (@ Rs. 100.00)	-	-
UNITS								
Comtrust Equity Fund (22,753,798 Units of Rs.10/- each) (25,281,998 Units of Rs.10/- each as at December 31, 2004)	119,457 *	232,544 (@ Rs. 10.22)	132,730 *	233,606 (@ Rs. 9.24)	119,457 *	232,544 (@ Rs. 10.22)	132,730 *	233,606 (@ Rs. 9.24)
	1,299,204	1,975,224	1,304,977	1,857,058	1,299,204	1,975,224	1,304,977	1,857,058
* At written down value								
Unquoted SHARES								
Credit Information Bureau of Sri Lanka (4,400 Ordinary Shares of Rs. 100/- each) (4,400 Ordinary Shares of Rs. 100/- each as at December 31, 2004)	440	440 (@ Rs.100.00)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)	440	440 (@ Rs. 100.00)
Fitch Ratings Lanka Ltd. (62,500 Ordinary Shares of Rs. 10/- each) (62,500 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)	625	625 (@ Rs. 10.00)
Lanka Clear (Pvt) Ltd. (1,000,000 Ordinary Shares of Rs.10/- each) (1,000,000 Ordinary Shares of Rs.10/- each as at December 31, 2004)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)	10,000	10,000 (@ Rs. 10.00)
Central Depository of Bangladesh Ltd. (6 shares of Bangladesh Taka 1.000 Mn each. Converted at Rs. 1.68505 per Taka) (6 shares of Bangladesh Taka 1.000 Mn each. Converted at Rs. 1.66515 per Taka as at December 31, 2004)	10,110	10,110	9,991	9,991	10,110	10,110	9,991	9,991
Commercial Insurance Brokers (Pvt) Ltd. (120,000 Ordinary Shares of Rs. 10/- each) (120,000 Ordinary Shares of Rs. 10/- each as at December 31, 2004)	-	-	-	-	100	1,200 (@ Rs. 10.00)	100	1,200 (@ Rs. 10.00)

	As at 31.12.05		Bank		As at 31.12.05		Group	
	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price	Cost	Market Value/ Manager's Buying Price
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
DEBENTURES								
Singer Sri Lanka Ltd. (12% to 17% - 2005) (250,000 Debentures of Rs. 100/- each as at December 31, 2004)	-	-	25,000	25,000 (@ Rs. 100.00)	-	-	25,000	25,000 (@ Rs. 100.00)
LEASE BACKED SECURITIES								
The Finance Co. Ltd.	14,700	14,700	63,700	63,700	14,700	14,700	63,700	63,700
The Finance Co. Ltd.	37,700	37,700	90,500	90,500	37,700	37,700	90,500	90,500
Senkadagala Finance Ltd.	107,771	107,771	-	-	107,771	107,771	-	-
Commercial Leasing Co. Ltd.	277,841	277,841	-	-	277,841	277,841	-	-
TRUST CERTIFICATES / BONDS								
Housing Development Finance Corporation of Sri Lanka	-	-	49,193	49,193	-	-	49,193	49,193
People's Leasing Co. Ltd.	662,292	662,292	362,284	362,284	662,292	662,292	362,284	362,284
Commercial Leasing Co. Ltd.	45,600	45,600	123,200	123,200	45,600	45,600	123,200	123,200
Senkadagala Finance Ltd.	214,750	214,750	-	-	214,750	214,750	-	-
Lanka Orix Leasing Co. Ltd.	300,000	300,000	300,000	300,000	300,000	300,000	300,000	300,000
Government Bond o/a CWE	600,000	600,000	600,000	600,000	600,000	600,000	600,000	600,000
Government of Bangladesh Prize Bonds	110,339	110,339	416	416	110,339	110,339	416	416
	2,392,168	2,392,168	1,635,349	1,635,349	2,392,268	2,393,368	1,635,449	1,636,549
	3,691,372	4,367,392	2,940,326	3,492,407	3,691,472	4,368,592	2,940,426	3,493,607

17. Loans & Advances

	Bank		Group	
	2005	2004	2005	2004
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
17.1 Bills of Exchange				
Export bills	2,384,543	2,409,794	2,384,543	2,409,794
Import bills	465,424	459,919	465,424	459,919
	2,849,967	2,869,713	2,849,967	2,869,713
Less: Loan loss provision [Note 17.1 (a)]	59,651	70,841	59,651	70,841
Interest in suspense	-	-	-	-
	2,790,316	2,798,872	2,790,316	2,798,872

17.1 (a) Movement in the Provision for Bad & Doubtful Bills of Exchange

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Specific Provisions				
Opening balance	70,841	71,449	70,841	71,449
Amount provided	979	5,516	979	5,516
Amount reversed	(12,169)	(6,124)	(12,169)	(6,124)
Closing balance	59,651	70,841	59,651	70,841

17.2 Loans & Advances

Sri Lankan rupee and foreign currency loans & advances [Note 17.2 (a)]	114,448,720	87,969,456	114,448,364	87,969,456
Less: Loan loss provision [Note 17.2 (b)]	2,052,792	1,916,357	2,052,792	1,916,357
Interest in suspense [Note 17.2 (c)]	3,478,099	3,448,587	3,478,099	3,448,587
	108,917,829	82,604,512	108,917,473	82,604,512

17.2 (a) Sri Lankan Rupee and Foreign Currency Loans & Advances**Sri Lankan Rupee Loans & Advances**

Overdrafts	23,648,524	18,429,972	23,648,168	18,429,972
Loans	57,461,354	40,160,444	57,461,354	40,160,444
Packing credit	556,967	361,324	556,967	361,324
Staff loans	1,717,097	1,684,231	1,717,097	1,684,231
Foreclosed properties (Note 17.6)	95,113	102,525	95,113	102,525
Other accounts	2,321,262	2,295,862	2,321,262	2,295,862
	85,800,317	63,034,358	85,799,961	63,034,358

Foreign Currency Loans & Advances

Overdrafts	5,850,835	4,237,749	5,850,835	4,237,749
Loans	17,573,383	15,343,760	17,573,383	15,343,760
Packing credit	5,020,123	5,205,688	5,020,123	5,205,688
Other accounts	204,062	147,901	204,062	147,901
	28,648,403	24,935,098	28,648,403	24,935,098
Total	114,448,720	87,969,456	114,448,364	87,969,456

17.2 (b) Movement in the Provision for Bad & Doubtful Loans & Advances**Specific Provisions**

Opening balance	1,892,840	1,454,244	1,892,840	1,454,244
Amount provided	352,146	640,988	352,146	640,988
Exchange rate variance on foreign currency provisions	(17,878)	30,292	(17,878)	30,292
Amount reversed	(224,008)	(232,684)	(224,008)	(232,684)
Closing balance	2,003,100	1,892,840	2,003,100	1,892,840

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
General Provision				
Opening balance	23,517	12,220	23,517	12,220
Amount provided	27,705	11,247	27,705	11,247
Exchange rate variance on foreign currency provisions	(1,530)	50	(1,530)	50
Amount made specific	-	-	-	-
Closing balance	49,692	23,517	49,692	23,517
Total provision	2,052,792	1,916,357	2,052,792	1,916,357

17.2 (c) Movement in the Interest in Suspense Account

Opening balance	3,448,587	3,280,034	3,448,587	3,280,034
Interest suspended during the year	403,258	575,125	403,258	575,125
Amount recovered during the year	(373,746)	(406,572)	(373,746)	(406,572)
Closing balance	3,478,099	3,448,587	3,478,099	3,448,587

17.3 Lease Receivable within one year

Total lease rentals receivable	9,961,528	7,574,693	9,857,921	7,481,476
Less: Lease rentals receivable from one to five years from Balance Sheet date	6,143,756	4,697,200	6,073,364	4,628,412
Lease rentals receivable within one year from Balance Sheet date	3,817,772	2,877,493	3,784,557	2,853,064
Less: Unearned lease income	584,071	430,380	574,777	422,111
VAT recoverable	503,017	402,047	503,017	402,047
Loan loss provision	30,603	25,311	30,603	25,311
	2,700,081	2,019,755	2,676,160	2,003,595

17.4 Lease Receivable from one to five years

Lease rentals receivable from one to five years from Balance Sheet date	6,143,756	4,697,200	6,073,364	4,628,412
Less: Unearned lease income	939,918	702,550	928,907	688,104
VAT recoverable	799,790	656,299	799,790	656,299
Loan loss provision	49,247	41,318	49,247	41,318
	4,354,801	3,297,033	4,295,420	3,242,691

There were no lease rentals receivable beyond 5 years.

Movement in the provision for Bad & Doubtful Lease Receivable:

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Specific Provisions				
Opening balance	39,485	26,021	39,485	26,021
Amount provided	20,449	25,110	20,449	25,110
Amount reversed	(15,803)	(11,646)	(15,803)	(11,646)
Closing balance	44,131	39,485	44,131	39,485
General Provision				
Opening balance	27,144	104,817	27,144	104,817
Amount provided	8,575	7,200	8,575	7,200
Amount reversed	-	(84,873)	-	(84,873)
Closing balance	35,719	27,144	35,719	27,144
Total provision	79,850	66,629	79,850	66,629

The general provision for possible losses on Lease Receivable made up to December 31, 2003 was 3%, as against the current practice of providing 0.5% as disclosed in the Significant Accounting Policies. The impact of this change for the year 2004 is given above.

The maturity analysis of loans & advances is given in Note 31.

17.5 Non-Performing Loans & Advances

Net exposure on non-performing loans and advances as at December 31, before discounting the value of the securities obtained is given below:

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 %	2004 %
Bills of Exchange	97,895	86,518		
Loans and advances	4,764,943	4,809,165		
Lease receivable	101,279	107,702		
Non-performing loans & advances*	4,964,117	5,003,385	4.07	5.34
Less: Interest in suspense included in overdrafts **	893,294	896,106		
Net non-performing loans & advances	4,070,823	4,107,279	3.37	4.43
Less: Provision for bad & doubtful debts [Note 17.5 (a)]	2,192,293	2,053,828		
Net exposure	1,878,530	2,053,451	1.58	2.26

* This includes foreclosed properties, the details of which are given in Note 17.6 below.

** This does not tally with the total interest in suspense included in Note 17.2 (c) above due to the interest receivable on non-performing loans not being included.

Net exposure of Rs. 1,878.530 million (Rs. 2,053.451 million as at December 31, 2004) is covered by securities valued at Rs. 1,878.530 million (Rs. 2,053.451 million as at December 31, 2004) excluding machinery and stocks.

As per the "Hair Cut Rule" of the Central Bank of Sri Lanka, the extent up to which securities can be discounted for provisioning purposes is 75% at the time of first provisioning, 60% for non-performing loans between 1-2 years in the loss category, 50% for those between 2-3 years in the loss category and 40% for those between 3-4 years in the loss category. It will be at the discretion of the management for cases over 4 years in the loss category.

All loans & advances where the recovery of capital and/or interest is in arrears for over three months have been classified into the non-performing category in accordance with the guidelines issued by the Central Bank of Sri Lanka. The Bank's computer system has been programmed to classify the loans in accordance with these guidelines. In instances where the recovery of capital and/or interest is in arrears for over three months interest credited to the Income Statement on such loans & advances for the first three months too is transferred to interest in suspense.

17.5 (a) Provision for Bad & Doubtful Debts - Summary

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Opening balance	2,053,828	1,668,752	2,053,828	1,668,752
Provision made during the year	409,853	690,062	409,853	690,062
Exchange rate variance on foreign currency provisions	(19,408)	30,342	(19,408)	30,342
Recoveries/Reversals during the year	(251,980)	(335,328)	(251,980)	(335,328)
Closing balance	2,192,293	2,053,828	2,192,293	2,053,828

17.6 Foreclosed Properties

The foreclosed properties included under loans & advances as at December 31, include the following:

	Bank								
	Extent			2005		2004			
	A	R	P	Cost/W.D.V. Rs.'000	Forced Sale Value Rs.'000	Cost/W.D.V. Rs.'000	Forced Sale Value Rs.'000		
1. Land and Building at Kochchikade, Negombo*	2	2	36.91	81,613	125,000	81,613	125,000		
2. Land at Thaladena, Pamunugama	11	1	5.60	13,500	13,500	13,500	13,500		
3. Land at Colombo Road, Kurunegala	0	0	30.00	-	-	3,409	3,400		
4. Land and Building at Old Airport Road, Ratmalana	0	1	26.00	-	-	4,003	8,250		
Total as above				95,113	138,500	102,525	150,150		

A = Acres, R = Roods, P = Perches

* Bank acquired this hotel property in 1999 in settlement of a debt due to the Bank with the approval of the Central Bank of Sri Lanka. Bank entered into a management agreement with Serendib Leisure Management (Pvt) Ltd. which expired in December 2002. Currently, this hotel is closed for operations pending the disposal of the property at the earliest opportunity.

17.7 Concentration of Credit Risk

Sectorwise analysis of the loans & advances portfolio reflecting the exposure to credit risk in the various sectors is given below:

	Bank				Group			
	Rs.'000	2005 %	Rs.'000	2004 %	Rs.'000	2005 %	Rs.'000	2004 %
Exports	15,848,433	12.74	13,958,832	14.51	15,848,433	12.75	13,958,832	14.52
Tourism & allied	4,226,475	3.40	2,830,235	2.94	4,226,475	3.40	2,830,235	2.94
Industrial	19,517,336	15.68	16,343,740	16.99	19,517,336	15.70	16,273,239	16.92
Agriculture & fishing	1,664,978	1.34	1,396,091	1.45	1,664,978	1.34	1,396,091	1.45
Commercial trading	8,930,045	7.18	7,697,980	8.00	8,930,045	7.18	7,697,980	8.01
Imports	17,645,871	14.18	15,191,305	15.79	17,645,871	14.19	15,191,305	15.80
Consumption	4,491,896	3.61	2,847,086	2.96	4,491,896	3.61	2,847,086	2.96
Services	17,394,590	13.98	11,771,722	12.23	17,311,288	13.92	11,771,722	12.24
Housing & construction	7,139,339	5.74	4,459,860	4.63	7,139,339	5.74	4,459,860	4.64
Others	27,574,456	22.15	19,725,734	20.50	27,574,456	22.17	19,725,734	20.52
Gross loans & advances	124,433,419	100.00	96,222,585	100.00	124,350,117	100.00	96,152,084	100.00

18. Investments in Associate Companies

	% Holding	Bank				Group				
		31.12.05		31.12.04		31.12.05		31.12.04		
		Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	
		Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
Quoted										
Commercial Leasing Co. Ltd.										
(Incorporated in Sri Lanka)	30.00	50,250	618,008	50,250	342,128	50,250	618,008	50,250	342,128	
(3,630,001 Ordinary Shares of Rs. 10/- each fully paid)			(@ Rs. 170.25)		(@ Rs. 94.25)		(@ Rs. 170.25)		(@ Rs. 94.25)	
(3,630,001 Ordinary Shares of Rs. 10/- each fully paid as at Dec. 31, 2004)										
Share Premium held by the Bank						26,146		26,146		
Add: Share of profit/(loss) applicable to the Bank										
Balance at the beginning of the year						107,972		71,217		
Current year's share of profit/(loss) after tax						61,479		48,330		
Less: Dividend received during the year						(21,270)		(11,575)		
Current year's retained profit/(loss)						40,209		36,755		
						148,181		107,972		
Balance at the end of the year		50,250	618,008	50,250	342,128	224,577	618,008	184,368	342,128	
Unquoted										
Equity Investments Lanka Ltd.										
(Incorporated in Sri Lanka)	22.92	44,331	39,922	44,331	40,735	44,331	39,922	44,331	40,735	
(4,110,938 Ordinary Shares of Rs.10/- each fully paid)										
(4,110,938 Ordinary Shares of Rs. 10/- each fully paid as at Dec. 31, 2004)										
Add: Share of profit/(loss) applicable to the Bank										
Balance at the beginning of the year						(3,596)		(5,732)		
Current year's share of profit/(loss) after tax						1,242		2,136		
Less: Dividend received during the year						(2,055)		-		
Current year's retained profit/(loss)						(813)		2,136		
						(4,409)		(3,596)		
Balance at the end of the year		44,331	39,922	44,331	40,735	39,922	39,922	40,735	40,735	

	% Holding	31.12.05		Bank 31.12.04		31.12.05		Group 31.12.04	
		Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation	Balance	Market Value/ Directors' Valuation
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Commercial Fund Management (Pvt) Ltd. (Incorporated in Sri Lanka)									
(125,000 Ordinary Shares of Rs. 100/- each fully paid)	50.00	12,500	18,290	12,500	16,115	12,500	18,290	12,500	16,115
(125,000 Ordinary Shares of Rs. 100/- each fully paid as at Dec. 31,2004)									
(15,000 Preference Shares of Rs. 100/- each as at Dec. 31, 2004)		-	-	1,500	1,500	-	-	1,500	1,500
Add: Share of profit/(loss) applicable to the Bank									
Balance at the beginning of the year						3,615		1,394	
Current year's share of profit/(loss) after tax						3,384		2,221	
Less: Dividend received during the year						(1,209)		-	
Current year's retained profit/(loss)						2,175		2,221	
						5,790		3,615	
Balance at the end of the year		12,500	18,290	14,000	17,615	18,290	18,290	17,615	17,615
		56,831	58,212	58,331	58,350	58,212	58,212	58,350	58,350
Total Value of Investments in									
Quoted & Unquoted Associate Companies		107,081		108,581		282,789		242,718	
Total Market Value/Directors' Valuation of Investments in Associate Companies									
		676,220		400,478		676,220		400,478	

19. Investments in Subsidiary Companies

Quoted

Commercial Development Co. Ltd.

(Incorporated in Sri Lanka)

(11,345,705 Ordinary Shares of

Rs.10/- each fully paid)

94.55

274,393

624,014

274,393

340,371

-

-

-

-

(11,345,705 Ordinary Shares of

Rs. 10/- each fully paid as at Dec. 31, 2004)

(@ Rs. 55.00)

(@ Rs. 30.00)

Unquoted

Commercial Bank Primary Dealer Ltd.

(Incorporated in Sri Lanka)

(15,000,000 Ordinary Shares of

Rs.10/- each fully paid)

100.00

150,000

150,000

150,000

150,000

-

-

-

-

(15,000,000 Ordinary Shares of

Rs. 10/- each fully paid as at Dec. 31, 2004)

(@ Rs. 10.00)

(@ Rs. 10.00)

ONEzero Company Ltd.

(Incorporated in Sri Lanka)

(500,000 Ordinary Shares of

Rs.10/- each fully paid)

100.00

5,000

5,000

5,000

5,000

-

-

-

-

(500,000 Ordinary Shares of

Rs. 10/- each fully paid as at Dec. 31, 2004)

(@ Rs. 10.00)

(@ Rs. 10.00)

X-pertise Ltd.

(Incorporated in Sri Lanka)

(428,797 Ordinary Shares of

Rs. 10/- each fully paid)

100.00

4,288

4,288

-

-

-

-

-

-

(As at Dec. 31, 2004 - Nil)

433,681

783,302

429,393

495,371

-

-

-

-

20. Other Assets

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Deposits & prepayments	198,796	146,516	206,909	148,869
Clearing account balance	777,958	611,460	777,958	611,460
Others	1,926,050	700,531	1,807,883	684,577
	2,902,804	1,458,507	2,792,750	1,444,906

21. Property, Plant & Equipment

	Freehold Land Rs.'000	Freehold Buildings Rs.'000	Leasehold Land & Buildings Rs.'000	Computer Equipment Rs.'000	Motor Vehicles Rs.'000	Office Equipment & Furniture Rs.'000	Capital Work-in- Progress Rs.'000	31.12.05 Total Rs.'000	31.12.04 Total Rs.'000
Bank									
Cost/Valuation									
as at beginning of the year	907,104	975,587	84,839	1,266,241	38,344	1,003,283	378	4,275,776	2,937,401
Additions for the year	152,879	5,192	-	302,613	2,450	184,200	6,386	653,720	432,040
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(140,543)
Surplus on revaluation	-	-	-	-	-	-	-	-	1,131,147
Disposals for the year	(10,818)	(102)	-	(13,500)	(3,440)	(18,794)	-	(46,654)	(19,843)
Transfers/Adjustments	1,250	(98,860)	97,610	(2,433)	-	(3,943)	-	(6,376)	(64,426)
As at end of the year	<u>1,050,415</u>	<u>881,817</u>	<u>182,449</u>	<u>1,552,921</u>	<u>37,354</u>	<u>1,164,746</u>	<u>6,764</u>	4,876,466	4,275,776
Accumulated depreciation/ amortisation									
as at beginning of the year	-	4,443	-	832,142	35,280	651,458	-	1,523,323	1,451,423
Charge for the year	-	35,157	4,084	128,109	2,104	92,373	-	261,827	228,583
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(140,543)
Disposals	-	(47)	-	(9,335)	(3,440)	(16,990)	-	(29,812)	(15,746)
Transfers/Adjustments	-	-	-	(89)	-	(132)	-	(221)	(394)
As at end of the year	<u>-</u>	<u>39,553</u>	<u>4,084</u>	<u>950,827</u>	<u>33,944</u>	<u>726,709</u>	<u>-</u>	1,755,117	1,523,323
Net Book Value as at 31.12.05	1,050,415	842,264	178,365	602,094	3,410	438,037	6,764	3,121,349	
Net Book Value as at 31.12.04	<u>907,104</u>	<u>971,144</u>	<u>84,839</u>	<u>434,099</u>	<u>3,064</u>	<u>351,825</u>	<u>378</u>		2,752,453
Group									
Cost / Valuation									
as at beginning of the year	907,104	1,152,224	128,699	1,266,670	119,661	1,046,270	378	4,621,006	3,259,104
Additions for the year	152,879	5,192	-	303,046	34,098	188,816	6,386	690,417	483,701
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(140,543)
Surplus on revaluation	-	-	-	-	-	-	-	-	1,131,147
Disposals for the year	(10,818)	(102)	-	(13,500)	(11,756)	(18,794)	-	(54,970)	(47,977)
Transfers/Adjustments	1,250	(98,860)	97,610	(2,433)	-	(3,943)	-	(6,376)	(64,426)
As at end of the year	<u>1,050,415</u>	<u>1,058,454</u>	<u>226,309</u>	<u>1,553,783</u>	<u>142,003</u>	<u>1,212,349</u>	<u>6,764</u>	5,250,077	4,621,006
Accumulated depreciation/ amortisation									
as at beginning of the year	-	52,198	5,308	832,482	61,622	678,849	-	1,630,459	1,557,205
Charge for the year	-	39,573	4,594	128,205	23,177	95,979	-	291,528	252,993
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-	-	(140,543)
Disposals	-	(47)	-	(9,335)	(10,385)	(16,990)	-	(36,757)	(38,802)
Transfers/Adjustments	-	-	-	(89)	-	(132)	-	(221)	(394)
As at end of the year	<u>-</u>	<u>91,724</u>	<u>9,902</u>	<u>951,263</u>	<u>74,414</u>	<u>757,706</u>	<u>-</u>	1,885,009	1,630,459
Net Book Value as at 31.12.05	1,050,415	966,730	216,407	602,520	67,589	454,643	6,764	3,365,068	
Net Book Value as at 31.12.04	<u>907,104</u>	<u>1,100,026</u>	<u>123,391</u>	<u>434,188</u>	<u>58,039</u>	<u>367,421</u>	<u>378</u>		2,990,547

With the permission of the Central Bank of Sri Lanka, freehold and leasehold land & buildings of the Bank were revalued by professionally qualified independent valuers as at December 31, 2004. The surplus on the revaluation amounting to Rs. 1,131.147 million was credited to the Revaluation Reserve Account.

The carrying amount of these freehold land & buildings if they were carried at cost less accumulated depreciation is as follows:

	2005			2004		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Land	220,357	-	220,357	220,357	-	220,357
Buildings	685,687	157,685	528,002	685,687	140,543	545,144
Total	906,044	157,685	748,359	906,044	140,543	765,501

There were no significant changes in the Bank's or Group's Property, Plant & Equipment during the year. The market value of land does not differ substantially from the book values.

If Commercial Development Co. Ltd. provided for depreciation on the assets purchased/disposed of during the year on a pro-rata basis as is done by the Bank, the depreciation charge for the year 2005 in Group accounts would have been lower by Rs. 2.093 million (in 2004, profit would have been higher by Rs. 0.970 million).

22. Intangible Assets

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Cost/Valuation				
as at beginning of the year	385,123	329,233	385,123	329,233
Additions for the year	44,107	55,890	45,237	55,890
Disposals for the year	-	-	-	-
Transfers/Adjustments	-	-	-	-
As at end of the year	429,230	385,123	430,360	385,123
Accumulated amortisation				
as at beginning of the year	241,905	210,141	241,905	210,141
Amortisation for the year	37,340	31,764	37,340	31,764
Disposals for the year	-	-	-	-
Transfers/Adjustments	-	-	-	-
As at end of the year	279,245	241,905	279,245	241,905
Net Book Value	149,985	143,218	151,115	143,218

23. Deposits from Customers

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Local Currency Deposits				
Current account deposits	12,376,704	9,378,790	12,266,491	9,361,291
Savings deposits	35,203,524	29,954,238	35,203,170	29,863,411
Time deposits	34,472,553	19,377,554	34,472,553	19,377,554
Certificates of deposit	3,298,219	3,318,862	3,298,219	3,318,862
	85,351,000	62,029,444	85,240,433	61,921,118
Foreign Currency Deposits				
Current account deposits	3,403,137	3,413,784	3,403,137	3,413,784
Savings deposits	16,076,665	11,876,944	16,076,665	11,876,944
Time deposits	22,770,478	21,409,669	22,770,478	21,409,669
	42,250,280	36,700,397	42,250,280	36,700,397
Total Deposits	127,601,280	98,729,841	127,490,713	98,621,515
23 (a) Analysis of Deposits				
Deposits from Banks	1,469,362	583,925	1,469,362	583,925
Deposits from Finance Companies	1,008,413	565,968	1,008,413	565,968
Deposits from other Customers	125,123,505	97,579,948	125,012,938	97,471,622
	127,601,280	98,729,841	127,490,713	98,621,515

The maturity analysis of deposits is given in Note 31.

24. Borrowings

Call money borrowings	721,414	–	721,414	–
Foreign bank balances	9,274,819	6,473,980	9,274,819	6,473,980
Refinance borrowings	3,429,624	2,615,760	3,429,624	2,615,760
	13,425,857	9,089,740	13,425,857	9,089,740

25. Other Liabilities

Accrued expenditure and interest	2,857,936	2,218,294	2,859,052	2,220,738
Provision for Gratuity	5,981	2,095	9,712	5,387
Others	3,213,190	1,275,416	3,201,365	1,265,071
	6,077,107	3,495,805	6,070,129	3,491,196

26. Deferred Taxation

	Bank				Group			
	2005		2004		2005		2004	
	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000
As at beginning of the year	794,667	238,400	824,333	247,300	835,973	250,792	862,593	258,778
Amount originating/(reversing) during the year	(149,810)	(12,700)	(29,666)	(8,900)	(153,342)	(11,871)	(26,620)	(7,986)
As at end of the year	644,857	225,700	794,667	238,400	682,631	238,921	835,973	250,792

Provision has not been made for deferred taxation on assets leased to customers as explained in the Significant Accounting Policies.

Tax effect on timing differences of assets leased to customers is given below:

	Bank				Group			
	2005		2004		2005		2004	
	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000	Timing Difference Rs.'000	Tax Effect Rs.'000
As at beginning of the year	814,807	244,442	1,021,313	306,394	814,807	244,442	1,021,313	306,394
Amount originating/(reversing) during the year	205,516	112,671	(206,506)	(61,952)	205,516	112,671	(206,506)	(61,952)
As at end of the year	1,020,323	357,113	814,807	244,442	1,020,323	357,113	814,807	244,442

Deferred tax on assets leased to customers will have to be provided in the Financial Statements in 2006 as per the Sri Lanka Accounting Standard No. 14 (revised 2005) on Income Taxes. Accordingly, cumulative Deferred Tax provision on assets leased to customers as at December 31, 2005 of Rs. 357.113 million will be provided through the reserves on or before December 31, 2006. Additional provision/reversal arising during the year 2006 will be effected in the Income Statement in 2006.

27. Debentures

As at December 31, 2005, debentures consisted of 4,553,410 Unsecured Subordinated Redeemable 5-year debentures of Rs. 1,000/- each issued by the Bank in 2003, 2004 and 2005. As at December 31, 2004, debentures consisted of 3,244,410 Unsecured Subordinated Redeemable 5-year debentures of Rs. 1,000/- each issued by the Bank in 2003 and 2004.

The details of the Debentures in issue are as follows:

No. of Debentures	2005 Rs.'000	2004 Rs.'000	Allotment Date	Maturity Date	Rate of Interest
115,890	115,890 *	115,890	12.05.2003	12.05.2008	Fixed - 10% p.a. payable quarterly (Effective Annual Yield - 10.38% p.a.)
2,128,520	2,128,520 *	2,128,520	12.05.2003	12.05.2008	Floating Interest Rate equivalent to the three months Treasury Bill after 10% Withholding Tax rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period plus 2% p.a. payable quarterly. (Effective Annual Yield - 10.77% p.a.)
1,000,000	1,000,000	1,000,000	01.10.2004	01.10.2009	Floating Interest Rate equivalent to the three months Treasury Bill after 10% Withholding Tax rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period plus 2% p.a. payable quarterly. (Effective Annual Yield - 10.77% p.a.)
120,000	120,000	-	10.10.2005	10.10.2010	Floating Interest Rate equivalent to the three months Treasury Bill after 10% Withholding Tax rate as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period plus 2% p.a. payable quarterly. (Effective Annual Yield - 11.65% p.a.)
905,000	905,000	-	10.10.2005	10.10.2010	Floating Interest Rate equivalent to the three months Treasury Bill before 10% Withholding Tax rate (gross rate) as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period plus 1% p.a. payable quarterly. (Effective Annual Yield - 11.73% p.a.)
284,000	284,000	-	10.10.2005	10.10.2010	Fixed - 12% p.a. payable annually (Effective Annual Yield - 12.00% p.a.)
4,553,410	4,553,410	3,244,410			

* These debentures are quoted in the Colombo Stock Exchange and the market prices are given on pages 134 and 135.

These debentures were issued mainly to raise long-term funds to expand long-term credit facilities.

There were no material changes in the use of funds raised through debentures.

28. Share Capital

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Authorised				
250,000,000 Ordinary Voting Shares of Rs. 10/- each	2,500,000	2,500,000	2,500,000	2,500,000
50,000,000 Ordinary Non-Voting Shares of Rs. 10/- each	500,000	500,000	500,000	500,000
200,000,000 Cumulative Redeemable Preference Shares of Rs. 10/- each	2,000,000	2,000,000	2,000,000	2,000,000
	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>	<u>5,000,000</u>
Issued & Fully Paid				
Ordinary Shares - Voting				
Opening balance - 65,029,769 shares of Rs. 10/- each (65,000,000 shares in 2004)	650,298	650,000	650,298	650,000
Issue of 29,769 shares of Rs. 10/- each under Employee Share Option Plan	-	298	-	298
Issue of 1,361,591 shares of Rs. 10/- each under Employee Share Option Plan	13,616	-	13,616	-
Bonus Issue of 66,389,162 shares of Rs. 10/- each	663,892	-	663,892	-
Closing balance - 132,780,522 shares of Rs. 10/- each (65,029,769 shares in 2004)	<u>1,327,806</u>	<u>650,298</u>	<u>1,327,806</u>	<u>650,298</u>
Ordinary Shares - Non-Voting				
Opening balance - 4,650,230 shares of Rs. 10/- each (4,650,230 shares in 2004)	46,501	46,501	46,501	46,501
Bonus Issue of 4,650,230 shares of Rs. 10/- each	46,502	-	46,502	-
Closing balance - 9,300,460 shares of Rs. 10/- each (4,650,230 shares in 2004)	<u>93,003</u>	<u>46,501</u>	<u>93,003</u>	<u>46,501</u>
13% Cumulative Redeemable Preference Shares				
Opening balance - 90,655,500 shares of Rs. 10/- each	906,555	906,555	906,555	906,555
Issued during the year	-	-	-	-
Closing balance - 90,655,500 shares of Rs. 10/- each	<u>906,555</u>	<u>906,555</u>	<u>906,555</u>	<u>906,555</u>
11.25% Cumulative Redeemable Preference Shares				
Opening balance - 100,000,000 shares of Rs. 10/- each	1,000,000	1,000,000	1,000,000	1,000,000
Issued during the year	-	-	-	-
Closing balance - 100,000,000 shares of Rs. 10/- each	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>	<u>1,000,000</u>
Total	<u>3,327,364</u>	<u>2,603,354</u>	<u>3,327,364</u>	<u>2,603,354</u>

These shares are quoted in the Colombo Stock Exchange.

The 13% Cumulative Redeemable Preference Shares were allotted on September 21, 2001 and will be redeemed on September 20, 2006.

The 11.25% Cumulative Redeemable Preference Shares were allotted on May 13, 2003 and will be redeemed on May 12, 2008.

Bank intends to build up a Capital Redemption Reserve Fund out of the profits otherwise available for dividends in order to redeem the Preference Shares at maturity.

Employee Share Option Plan

The Bank obtained the approval of the shareholders at an Extraordinary General Meeting held in September 2002, to introduce an Employee Share Option Plan for the benefit of all the executive officers in Grade III and above by creating up to 5% of the ordinary voting shares at the rate of 1.25% shares each year over a period of four years, upon the Bank achieving specified performance targets.

The details relating to the four tranches of the Employee Share Option Plan are given below:

Tranche	No. of Options (*)	Date given/ to be given	Price (Rs.) (**)	Exercisable between
I	650,000	March 31, 2003	147.84	April 01, 2004 to March 31, 2008
II	812,500	March 31, 2004	168.00	April 01, 2005 to March 31, 2009
III	1,637,947	March 31, 2005	163.00	April 01, 2006 to March 31, 2010
IV	To be determined at 1.25% of the issued voting share capital as of March 31, 2006	March 31, 2006	161.74	April 01, 2007 to March 31, 2011

(*) Giving options under each tranche is based on the overall performance of the Bank for each year and the individual performance of the eligible employees.

(**) Determined on the basis of the weighted average price of the voting shares of the Bank between October 1 and December 31 of each year, for which options are given to eligible employees.

The number of options given to the Managing Director under tranches I, II & III are 25,623, 30,753 and 63,349 respectively.

29. Statutory Reserve Fund

	Bank		Group	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Opening balance	1,009,000	1,009,000	1,009,819	1,009,000
Add: Transfer during the year	412,000	–	412,000	819
Closing balance	1,421,000	1,009,000	1,421,819	1,009,819

The balance in the Statutory Reserve Fund account will be used only for the purposes specified in the Section 20(2) of the Banking Act No. 30 of 1988.

30. Reserves

	Bank		Group	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Capital Reserves				
Share Premium Account [Refer Note 30 (a)]	1,679,604	2,186,874	1,679,604	2,186,874
Revaluation Reserve [Refer Notes 21 and 30 (b)]	1,288,177	1,288,433	1,288,177	1,288,433
	2,967,781	3,475,307	2,967,781	3,475,307
Revenue Reserves				
General Reserve [Refer Note 30 (c)]	7,625,000	6,545,000	7,625,000	6,545,000
Unappropriated profit carried forward	427,238	278,856	611,609	471,029
	8,052,238	6,823,856	8,236,609	7,016,029
Total	11,020,019	10,299,163	11,204,390	10,491,336

30 (a) Share Premium Account

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Opening balance	2,186,874	2,182,881	2,186,874	2,182,881
Proceeds from issue of shares under Employee Share Option Plan	203,124	4,103	203,124	4,103
Utilised for the bonus issue of shares	(710,394)	–	(710,394)	–
Writing-off of share issue expenses	–	(110)	–	(110)
Closing balance	<u>1,679,604</u>	<u>2,186,874</u>	<u>1,679,604</u>	<u>2,186,874</u>

Share Premium account is generally used for bonus issue of ordinary shares and writing-off of share and debenture issue expenses.

30 (b) Revaluation Reserve

The Revaluation Reserve relates to revaluation of Land & Buildings and represents the increase in the fair value of the Land & Buildings at the date of revaluation.

The Licensed Commercial Banks are allowed to carry out revaluation of their Land & Buildings every seven years and treat 50% of the surplus as supplementary capital in the Tier II of their Capital Base in the computation of Risk-weighted Capital Ratio.

30 (c) General Reserve

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Opening balance	6,545,000	5,508,000	6,545,000	5,508,000
Add: Transfer from the Income Statement	1,080,000	1,037,000	1,080,000	1,037,000
Closing balance	<u>7,625,000</u>	<u>6,545,000</u>	<u>7,625,000</u>	<u>6,545,000</u>

This comprises amounts appropriated by the Management for the general banking reserve.

31. Maturity Analysis**31 (a) Bank**

(i) An analysis of the total assets employed of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.05 Rs.'000	Total as at 31.12.04 Rs.'000
Interest Earning Assets							
Cash and short-term funds	15,788,760	–	–	–	–	15,788,760	8,777,034
Balances with Central Banks	1,132,995	85,462	–	–	–	1,218,457	275,726
Government Treasury Bills and Bonds	10,409,408	8,495,064	–	–	–	18,904,472	5,521,750
Commercial paper	161,074	246,493	–	–	–	407,567	559,689
Securities purchased under re-sale agreements	585,455	222,680	–	–	–	808,135	399,152
Investment securities	178,915	433,181	1,029,741	62,192	710,074	2,414,103	1,660,849
Treasury Bonds maturing after one year	–	–	1,599,593	108,443	6,052	1,714,088	13,778,182
Loans and advances	57,714,493	16,849,216	25,842,403	9,592,044	8,764,871	118,763,027	90,720,172
	<u>85,971,100</u>	<u>26,332,096</u>	<u>28,471,737</u>	<u>9,762,679</u>	<u>9,480,997</u>	<u>160,018,609</u>	<u>121,692,554</u>

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.05 Rs.'000	Total as at 31.12.04 Rs.'000
Non-Interest Earning Assets							
Cash and short term funds	2,874,093	–	–	–	–	2,874,093	3,358,573
Balances with Central Banks	5,863,963	1,538,001	88,715	48,938	287,106	7,826,723	6,043,954
Dealing securities	182,243	–	–	–	–	182,243	109,560
Investment securities	–	–	–	–	1,277,269	1,277,269	1,279,477
Investments in associate companies	–	–	–	–	107,081	107,081	108,581
Investments in subsidiary companies	–	–	–	–	433,681	433,681	429,393
Interest and fees receivable	1,183,626	–	–	–	–	1,183,626	1,097,115
Other assets	2,902,804	–	–	–	–	2,902,804	1,458,507
Property, Plant & Equipment	–	–	–	–	3,121,349	3,121,349	2,752,453
Intangible assets	–	–	–	–	149,985	149,985	143,218
	<u>13,006,729</u>	<u>1,538,001</u>	<u>88,715</u>	<u>48,938</u>	<u>5,376,471</u>	<u>20,058,854</u>	<u>16,780,831</u>
Total Assets	<u>98,977,829</u>	<u>27,870,097</u>	<u>28,560,452</u>	<u>9,811,617</u>	<u>14,857,468</u>	<u>180,077,463</u>	<u>138,473,385</u>
Percentage - 31.12.05	<u>54.96</u>	<u>15.48</u>	<u>15.86</u>	<u>5.45</u>	<u>8.25</u>	<u>100.00</u>	
Percentage - 31.12.04	<u>53.54</u>	<u>13.39</u>	<u>20.94</u>	<u>4.83</u>	<u>7.30</u>		<u>100.00</u>

(ii) An analysis of the total liabilities and shareholders' funds of the Bank as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.05 Rs.'000	Total as at 31.12.04 Rs.'000
Interest Bearing Liabilities							
Deposits from customers	86,970,741	22,155,321	1,119,866	616,456	4,362,192	115,224,576	85,937,267
Borrowings	2,076,033	605,675	8,184,244	738,730	490,582	12,095,264	7,918,815
Securities sold under re-purchase agreements	9,561,919	1,801,547	25,596	112	–	11,389,174	9,049,893
Debentures	–	–	2,244,410	2,309,000	–	4,553,410	3,244,410
	<u>98,608,693</u>	<u>24,562,543</u>	<u>11,574,116</u>	<u>3,664,298</u>	<u>4,852,774</u>	<u>143,262,424</u>	<u>106,150,385</u>
Non-Interest Bearing Liabilities							
Deposits from customers	12,376,704	–	–	–	–	12,376,704	12,792,574
Dividends payable	230,352	–	–	–	–	230,352	230,352
Borrowings	1,330,593	–	–	–	–	1,330,593	1,170,925
Other liabilities	6,077,107	–	–	–	–	6,077,107	3,495,805
Tax payable	310,000	496,200	–	–	–	806,200	483,427
Deferred taxation	–	–	–	225,700	–	225,700	238,400
Share capital	–	906,555	1,000,000	–	1,420,809	3,327,364	2,603,354
Statutory Reserve Fund	–	–	–	–	1,421,000	1,421,000	1,009,000
Reserves	–	–	–	–	11,020,019	11,020,019	10,299,163
	<u>20,324,756</u>	<u>1,402,755</u>	<u>1,000,000</u>	<u>225,700</u>	<u>13,861,828</u>	<u>36,815,039</u>	<u>32,323,000</u>
Total Liabilities	<u>118,933,449</u>	<u>25,965,298</u>	<u>12,574,116</u>	<u>3,889,998</u>	<u>18,714,602</u>	<u>180,077,463</u>	<u>138,473,385</u>
Percentage - 31.12.05	<u>66.05</u>	<u>14.42</u>	<u>6.98</u>	<u>2.16</u>	<u>10.39</u>	<u>100.00</u>	
Percentage - 31.12.04	<u>63.02</u>	<u>18.73</u>	<u>2.87</u>	<u>3.94</u>	<u>11.44</u>		<u>100.00</u>

31 (b) Group

(i) An analysis of the total assets employed of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.05 Rs.'000	Total as at 31.12.04 Rs.'000
Interest Earning Assets							
Cash and short term funds	15,788,760	–	–	–	–	15,788,760	8,777,034
Balances with Central Banks	1,132,995	85,462	–	–	–	1,218,457	275,726
Government Treasury Bills and Bonds	10,664,821	8,495,064	–	–	–	19,159,885	6,646,721
Commercial paper	161,074	246,493	–	–	–	407,567	559,689
Securities purchased under re-sale agreements	585,455	222,680	–	–	–	808,135	2,087,420
Investment securities	178,915	433,181	1,029,741	62,192	710,074	2,414,103	1,660,849
Treasury Bonds maturing after one year	–	–	1,599,593	108,443	6,052	1,714,088	14,378,898
Loans and advances	57,714,137	16,825,295	25,783,022	9,592,044	8,764,871	118,679,369	90,649,670
	<u>86,226,157</u>	<u>26,308,175</u>	<u>28,412,356</u>	<u>9,762,679</u>	<u>9,480,997</u>	160,190,364	125,036,007
Non-Interest Earning Assets							
Cash and short term funds	2,867,999	–	–	–	–	2,867,999	3,358,682
Balances with Central Banks	5,863,963	1,538,001	88,715	48,938	287,106	7,826,723	6,043,954
Dealing securities	182,243	–	–	–	–	182,243	109,560
Investment securities	–	–	–	–	1,277,369	1,277,369	1,279,577
Investments in associate companies	–	–	–	–	282,789	282,789	242,718
Interest and fees receivable	1,198,631	–	–	–	–	1,198,631	1,143,316
Other assets	2,792,750	–	–	–	–	2,792,750	1,444,906
Property, Plant & Equipment	–	–	–	–	3,365,068	3,365,068	2,990,547
Intangible assets	–	–	–	–	151,115	151,115	143,218
	<u>12,905,586</u>	<u>1,538,001</u>	<u>88,715</u>	<u>48,938</u>	<u>5,363,447</u>	19,944,687	16,756,478
Total Assets	99,131,743	27,846,176	28,501,071	9,811,617	14,844,444	180,135,051	141,792,485
Percentage - 31.12.05	55.03	15.46	15.82	5.45	8.24	100.00	
Percentage - 31.12.04	53.59	13.36	21.08	4.87	7.10		100.00

(ii) An analysis of the total liabilities and shareholders' funds of the Group as at December 31, based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is given below:

	Up to 3 months Rs.'000	3 to 12 months Rs.'000	1 to 3 years Rs.'000	3 to 5 years Rs.'000	More than 5 years Rs.'000	Total as at 31.12.05 Rs.'000	Total as at 31.12.04 Rs.'000
Interest Bearing Liabilities							
Deposits from customers	86,860,174	22,155,321	1,119,866	616,456	4,362,192	115,114,009	85,937,268
Borrowings	2,076,032	605,675	8,184,244	738,730	490,582	12,095,263	7,918,815
Securities sold under re-purchase agreements	9,558,892	1,801,547	25,596	112	–	11,386,147	12,261,452
Debentures	–	–	2,244,410	2,309,000	–	4,553,410	3,244,410
	<u>98,495,098</u>	<u>24,562,543</u>	<u>11,574,116</u>	<u>3,664,298</u>	<u>4,852,774</u>	<u>143,148,829</u>	<u>109,361,945</u>
Non-Interest Bearing Liabilities							
Deposits from customers	12,376,704	–	–	–	–	12,376,704	12,684,247
Dividends payable	230,352	–	–	–	–	230,352	232,320
Borrowings	1,330,594	–	–	–	–	1,330,594	1,170,925
Other liabilities	6,070,129	–	–	–	–	6,070,129	3,491,196
Tax payable	155,000	617,664	–	–	–	772,664	484,187
Deferred taxation	–	–	–	238,921	–	238,921	250,792
Minority Interest	–	–	–	–	13,285	13,285	12,364
Share capital	–	906,555	1,000,000	–	1,420,809	3,327,364	2,603,354
Statutory Reserve Fund	–	–	–	–	1,421,819	1,421,819	1,009,819
Reserves	–	–	–	–	11,204,390	11,204,390	10,491,336
	<u>20,162,779</u>	<u>1,524,219</u>	<u>1,000,000</u>	<u>238,921</u>	<u>14,060,303</u>	<u>36,986,222</u>	<u>32,430,540</u>
Total Liabilities	118,657,877	26,086,762	12,574,116	3,903,219	18,913,077	180,135,051	141,792,485
Percentage - 31.12.05	65.87	14.48	6.98	2.17	10.50	100.00	
Percentage - 31.12.04	63.62	18.38	2.82	3.86	11.32		100.00

Notes (i) Loans and advances are shown net of interest in suspense and provision for bad & doubtful debts.

(ii) Balances with Central Banks have been apportioned into the maturity groups based on the maturity pattern of the deposits liable for Statutory Reserve Requirements.

(iii) Demand and savings deposits have been classified into the up to 3 months category. However, the major part of these deposits represents core retail deposits with longer term maturity.

(iv) Shareholders' funds excluding Cumulative Redeemable Preference Shares are classified into the more than 5 years category since no contractual date of maturity can be identified. However, these funds are available and have in fact been used for financing assets with lesser maturity periods.

32. Commitments and Contingencies

32 (a) In the normal course of business the Bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	Bank		Group	
	2005 Rs.'000	2004 Rs.'000	2005 Rs.'000	2004 Rs.'000
Commitments				
Commitments for unutilised facilities (direct advances)	14,248,496	10,248,106	14,248,496	10,248,106
Contingent Liabilities				
Acceptances	4,517,958	2,989,335	4,517,958	2,989,335
Documentary credits	9,373,307	10,043,603	9,373,307	10,043,603
Guarantees	14,064,651	13,258,607	14,064,651	13,258,607
Bills for collection	4,346,833	4,674,224	4,346,833	4,674,224
	32,302,749	30,965,769	32,302,749	30,965,769
Forward exchange contracts (net)	602,708	2,728,005	602,708	2,728,005
	32,905,457	33,693,774	32,905,457	33,693,774
Total commitments and contingencies	47,153,953	43,941,880	47,153,953	43,941,880

32 (b) Litigation against the Bank

- (i) Court action has been initiated by a customer in proceedings Number 36/96 (i) to claim a sum of Rs.183.050 million on account of forward exchange contracts. On legal advice the Bank defended the case and the trial has been concluded. Judgement is to be delivered on March 8, 2006.
- (ii) Judgement was delivered on September 21, 1995 on the Court action initiated by a customer in proceedings Number 93650/M to claim a sum of approximately Rs. 6.000 million relating to a dispute over the payment by the Bank of several cheques alleged to have been forged. The Bank has appealed against the judgement and it is pending listing for argument.
- (iii) Three Labour Tribunal cases filed by three ex-employees on termination of employment are pending against the Bank. In addition, three other cases are pending in the Appellate Courts.
- (iv) Court action has been initiated by a customer in proceedings Number 25831/MR to claim a sum of Rs. 2.880 million together with interest o/a an interest refund claimed on a Current Account.
- (v) Court action has been initiated by an insurance company in proceedings Number 26783/MR claiming a sum of Rs. 25.000 million in damages. This is sequel to the Bank filing action against this insurance company claiming a sum of approximately Rs. 106.012 million together with legal interest on an insurance claim.
- (vi) Court action has been initiated by a customer in proceedings Number 282/2002(1) restraining the Bank from paying a sum of Rs. 13.350 million on a bank guarantee. An interim injunction has been refused and thereafter the case has been referred to Commercial High Court and is yet to be called up. The Bank has obtained a counter guarantee from an insurance company.
- (vii) Court action has been initiated by a customer in proceedings Number 27485/MR to recover a sum of Rs. 15.204 million in damages in relation to alleged wrongful payment of a cheque for Rs. 0.024 million and alleged incorrect remark on two other cheques for values of Rs. 0.500 million and Rs. 0.180 million that have been returned. Bank is defending the action.
- (viii) Court action has been initiated by a customer in proceedings Number 25085/MR to recover a sum of US \$ 27,500 alleged to have been paid by the Bank by debiting the account without authority of the customer. Bank has paid this amount in pursuance of a counter guarantee issued by the Bank.
- (ix) Court action has been initiated by a customer in proceedings Number 36542/MR to recover a sum of Rs. 0.400 million and interest thereon and a further sum of Rs. 1.000 million from the Bank on an alleged breach of contract. Legal opinion has been obtained by the Bank and the Bank is defending the action.
- (x) Court action has been initiated by a customer in proceedings Number 1336/M to claim a sum of Rs. 0.200 million and interest thereon, relating to a dispute over the alleged non-payment by the Bank of two cheques when instructions were given to honour them and alleged payment by the Bank of another cheque when instructions were given not to do so. The Bank is defending the action.
- (xi) Court action has been initiated by a customer in proceedings Number 40762/MR to claim a sum of Rs. 300.000 million relating to a dispute over the alleged non-payment by the Bank of a cheque amounting to Rs. 0.015 million. The Bank is defending the action.
- (xii) Court action has been initiated by a person against the Bank and an executive of the Bank in proceedings Number 45937/MR to claim a sum of Rs. 20.000 million for allegedly advising a customer of the Bank against signing as a guarantor for a loan to be obtained by the person from a finance company. The Bank is defending the action.

33. Capital Commitments

Capital expenditure approved by the Board of Directors for which provision has not been made in these Financial Statements amounted to approximately:

	Bank		Group	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Approved and contracted for	5,711	74,991	5,711	74,991
Approved but not contracted for	23,150	14,500	23,150	14,500
	28,861	89,491	28,861	89,491

34. Financial Reporting by Segment as per the provisions of Sri Lanka Accounting Standard No. 28 - Group**34 (a) Business Segments**

For the year ended December 31,	Banking		Leasing		Dealing		Property/ Investments		Eliminations/ Unallocated		Total	
	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000	2005 Rs. '000	2004 Rs. '000
Revenue from external customers												
Interest	10,202,870	7,139,577	-	-	2,258,180	2,016,390	-	-	-	-	12,461,050	9,155,967
Exchange profit	97,047	602,926	-	-	489,868	270,635	-	-	-	-	586,915	873,561
Lease Income	-	-	831,741	621,589	-	-	-	-	-	-	831,741	621,589
Commissions	1,756,609	1,376,568	-	-	3,010	455	-	-	-	-	1,759,619	1,377,023
Other income	205,078	221,679	-	-	(21,423)	(76,100)	296,701	212,808	105,696	50,225	586,052	408,612
Total revenue from external customers	12,261,604	9,340,750	831,741	621,589	2,729,635	2,211,380	296,701	212,808	105,696	50,225	16,225,377	12,436,752
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-	-	-
Total revenue	12,261,604	9,340,750	831,741	621,589	2,729,635	2,211,380	296,701	212,808	105,696	50,225	16,225,377	12,436,752
Segment result	4,002,391	2,992,251	358,051	394,934	314,781	238,418	296,701	212,808	105,696	50,225	5,077,620	3,888,636
Unallocated expenses											(1,510,034)	(1,370,521)
Profit from operations											3,567,586	2,518,115
Net financing costs											-	-
Income from associates											100,462	76,356
Income tax expense											(1,309,969)	(867,370)
Minority interests											(1,641)	(1,742)
Net profit for the year											2,356,438	1,725,359

Other Information

As at December 31,

Segment assets	121,956,839	94,120,914	6,971,580	5,246,286	39,693,679	33,410,594	3,873,715	3,049,986	7,356,449	5,721,987	179,852,262	141,549,767
Investment in associates	-	-	-	-	-	-	282,789	242,718	-	-	282,789	242,718
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-
Total assets											180,135,051	141,792,485
Segment liabilities	106,264,716	81,512,217	6,971,580	5,246,286	39,693,679	33,410,594	4,156,504	3,292,704	7,081,714	4,226,175	164,168,193	127,687,976
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-
Total liabilities											164,168,193	127,687,976

Information on Cash Flows

For the year ended

December 31,

Cash flows from												
operating activities	1,971,234	1,633,544	(1,367,243)	(1,524,422)	314,781	238,418	-	-	(28,349)	(104,474)	890,423	243,066
Cash flows from												
investing activities	75,245	253,747	-	-	686,325	827,415	(489,385)	(407,415)	-	-	272,185	673,747
Cash flows from												
financing activities	2,711,052	(755,619)	-	-	2,800,839	3,004,562	-	-	582,198	451,670	6,094,089	2,700,613
Capital expenditure	(577,583)	(402,488)	-	-	-	-	(158,071)	(81,213)	-	-	(735,654)	(483,701)

34 (b) Geographical Segments

	Bank				Group			
	2005		2004		2005		2004	
	Rs.'000	%	Rs.'000	%	Rs.'000	%	Rs.'000	%
Assets								
Domestic Operations	144,922,969	80.48	109,510,842	79.08	144,980,557	80.48	112,829,942	79.58
Overseas Operations	13,104,682	7.28	11,076,212	8.00	13,104,682	7.28	11,076,212	7.81
Off-shore Banking Centre	22,049,812	12.24	17,886,331	12.92	22,049,812	12.24	17,886,331	12.61
	180,077,463	100.00	138,473,385	100.00	180,135,051	100.00	141,792,485	100.00
Income								
Domestic Operations	13,293,660	82.58	10,328,469	84.05	13,419,392	82.70	10,475,576	84.23
Overseas Operations	1,591,320	9.88	1,151,904	9.37	1,591,320	9.81	1,151,904	9.26
Off-shore Banking Centre	1,214,665	7.54	809,272	6.58	1,214,665	7.49	809,272	6.51
	16,099,645	100.00	12,289,645	100.00	16,225,377	100.00	12,436,752	100.00
Profit before Tax								
Domestic Operations	2,684,558	73.71	1,726,883	68.97	2,710,646	73.90	1,817,423	70.05
Overseas Operations	451,639	12.40	442,303	17.66	451,639	12.31	442,303	17.05
Off-shore Banking Centre	505,763	13.89	334,745	13.37	505,763	13.79	334,745	12.90
	3,641,960	100.00	2,503,931	100.00	3,668,048	100.00	2,594,471	100.00
Profit after Tax								
Domestic Operations	1,842,787	77.94	1,213,148	72.01	1,836,626	77.89	1,255,535	72.70
Overseas Operations	121,775	5.15	234,053	13.89	121,775	5.16	234,053	13.55
Off-shore Banking Centre	399,678	16.91	237,513	14.10	399,678	16.95	237,513	13.75
	2,364,240	100.00	1,684,714	100.00	2,358,079	100.00	1,727,101	100.00

35. Directors' Interests in Contracts with the Company

- Mr. M.J.C.Amarasuriya, Chairman of the Bank is also Chairman of United Motors Lanka Ltd., Associated United Motors Ltd., United Motors Property Development Ltd., UML Agencies & Distributors Ltd., Pelwatte Sugar Industries Ltd., Commercial Fund Management (Pvt.) Ltd., Equity Investments Lanka Ltd., Commercial Bank Primary Dealer Ltd., Serendib Flour Mills (Pvt.) Ltd., Unawatuna Beach Resorts Ltd., ONEzero Company Ltd. X-pertise Ltd. and a Director of Orient Motor Co. Ltd., T.V.S. Lanka Ltd., Commercial Leasing Company Ltd., and Technoconsult (Pvt.) Ltd. He is also Co-owner of Clodagh Western Estate.
- Mr. J.S.Mather, Deputy Chairman of the Bank is also a Director of Chemical Industries (Colombo) Ltd., Acme Printing and Packaging Ltd., Lanka Aluminium Industries Ltd., David Peiris Motor Company Ltd., Commercial Development Co.Ltd., Commercial Bank Primary Dealer Ltd., Comark Lanka (Pvt.) Ltd., Castalloys (Pvt.) Ltd., Delair Ltd., Delmage Air Services (Pvt.) Ltd., Delmage Forsyth & Co. (Shipping) Ltd., Lanka Galvanising Industries (Pvt.) Ltd., Managers & Secretaries (Pvt.) Ltd., Navigator Management (Pvt.) Ltd., Secretarial Services Ltd., S S L Business Services (Pvt.) Ltd., ONEzero Co. Ltd., Delmage Forsyth & Co. Ltd., Lanka Tours & Trades (Pvt.) Ltd., and Management Systems Ltd. He is also a Partner of Lanka Tours & Trades Properties and a member of the Board of Directors of The Institute for Development of Commercial Law & Practice & Arbitration Centre and Board member of South Asia Foundtion - Sri Lanka Chapter.
- Mr. A.L.Gooneratne, Chief Executive Officer of the Bank is also a Director of Commercial Leasing Co. Ltd., Commercial Development Co.Ltd., Equity Investments Lanka Ltd., Commercial Fund Management (Pvt.) Ltd., Commercial Insurance Brokers (Pvt.) Ltd., Commercial Bank Primary Dealer Ltd., ONEzero Co. Ltd. and X-pertise Ltd.
- Mr. B.R.L. Fernando, Director of the Bank is also Chairman of Chemical Industries (Colombo) Ltd., CIC Paints (Pvt.) Ltd., CIC Seeds (Pvt.) Ltd., CIC Agribiotech (Pvt.) Ltd., CISCO Speciality Packaging (Pvt.) Ltd., CIC Fertilizers (Pvt.) Ltd., Chemanex Ltd., CIC Feeds (Pvt.) Ltd., CIC Vetcare (Pvt.) Ltd., CIC Environmental Management Liquid (Pvt.) Ltd., CIC Poultry Farms Ltd., CIC Bio Security Breeder Farms Ltd., Mercantile Service Provident Society and a

Director of Crop Management Services (Pvt.) Ltd., Agro Enterprises Japan-Lanka (Pvt) Ltd., Rainwear (Pvt.) Ltd., T Plus (Pvt.) Ltd., Commercial Bank Primary Dealer Ltd., The Light House Hotel Ltd., Premier Electronics (Pvt.) Ltd., Paints & General Industries Ltd. and Link Natural Products (Pvt.) Ltd. He is also a Trustee to Employers' Federation of Ceylon Ltd., Director at Employees' Trust Fund and President of Japan Sri Lanka Technical & Cultural Association.

- e) Mr. A.N. Fonseka, Director of the Bank is also Chairman of DFCC Stockbrokers (Pvt.) Ltd., Lanka Industrial Estates Ltd., Lanka Ventures Ltd., National Asset Management Ltd. and Director of DFCC Bank, DFCC Consulting (Pvt.) Ltd., Colombo Stock Exchange, Credit Information Bureau of Sri Lanka, Commercial Bank Primary Dealer Ltd. and ONEzero Co. Ltd. He is also a member of Governing Council of National Institute of Business Management and member of Board of Management of Postgraduate Institute of Management.
- f) Mr. D.S. Weerakkody, Director of the Bank is also a Director of Cornucopia Lanka, DFCC Bank and SmithKline Beecham Ltd.
- g) Dr. H.S. Wanasinghe, Director of the Bank is also a Director at Commercial Development Co. Ltd.
- h) Mr. L.J.A. Fernando, Director of the Bank is also a Director at Standard Trading Co. (Pvt.) Ltd., L.F. Holdings (Pvt.) Ltd., LF Teas (Pvt.) Ltd., STC Logistics (Pvt.) Ltd., STC Trading House (Pvt.) Ltd., Horana Plantations Ltd., Unidil Packaging (Pvt.) Ltd., Ceytea Plantation Management Ltd., Research International (Pvt.) Ltd., Classic International (Pvt.) Ltd., Motor Marvels (Pvt.) Ltd., Frontier Automotive (Pvt.) Ltd. and Koboshu Corporation (Pvt.) Ltd.
- i) Mr. A.L. Gooneratne, Mr. J.S. Mather and Dr. H.S. Wanasinghe who were Directors of the Bank as at December 31, 2005 were also Directors of Commercial Development Company Ltd. (CDC) which Company has leased part of its premises to the Bank at an annual rental of Rs. 58,298,064/- excluding VAT and has hired motor vehicles to the Bank for which a hiring charge of Rs. 37,257,850/- was charged. Further, CDC has paid Rs.10,849,009/- to the Bank as lease rentals for the motor vehicles leased from the Bank.
- j) Banking facilities amounting to Rs. 340,000/- were made available against the security of fixed deposits totalling to Rs. 406,578/- to Clodagh Western Estate in which Mr. M.J.C. Amarasuriya is a co-partner. The balance outstanding as at December 31, 2005 was Rs. 306,219/-. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- k) Banking facilities amounting to Rs. 300,000/- in the form of an International Master Card were made available to Dr. H.S. Wanasinghe during the year. The balance outstanding as at December 31, 2005 was Rs. 38,772.16. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- l) Banking facilities amounting to Rs. 500,000/- in the form of an International Master Card were made available to Mr. A.L. Gooneratne during the year. The balance outstanding as at December 31, 2005 was nil. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.
- m) Banking facilities are made available to the following Directors in the ordinary course of business on commercial terms and conditions. The total amount of facilities granted by the Bank and balances as at December 31, are given below. The provisions of Section 47 of the Banking Act No. 30 of 1988 have been complied with.

	Total amount of Facility Granted (Rs.)	Balance as at 31.12.2005 (Rs.)	Balance as at 31.12.2004 (Rs.)
Mr. S.K.G. Senanayake - Overdraft - City Office (Secured)	6,000,000	1,283,902.95	Credit Balance
Mr. S.K.G. Senanayake (Joint Account) - Overdraft - Kirulapone	40,000	Credit Balance	Credit Balance

36. Related Party Transactions

The Bank carries out transactions in the ordinary course of its business on an arm's length basis at commercial rates with related parties. The weighted average Prime Lending Rate published by the Central Bank of Sri Lanka for the weeks ended July 1, 2005 and December 30, 2005 were 10.88% and 12.24%, respectively. The facilities granted to the related parties listed below have been at or above the Prime Lending Rate that prevailed at the time of granting the facilities. The related parties, names of Directors, their relationship, accommodation granted and the balances outstanding as at December 31, 2005 are listed below:

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit Rs.	Balance Outstanding Rs.
Subsidiary Companies					
Commercial Development Co. Ltd.	Mr. J.S. Mather	Director	Leasing Facilities	128,464,544	86,767,822
	Dr. H.S. Wanasinghe	Director			
	Mr. A.L. Gooneratne	Director			
Associate Companies					
Commercial Leasing Co. Ltd.	Mr. M.J.C Amarasuriya	Director	Overdraft	22,000,000	20,133,303
		Director	Short-Term Loans	200,000,000	200,000,000
	Mr. A.L. Gooneratne	Director	Term Loans	1,100,000,000	720,544,000
			Letters of Credit	30,000,000	1,646,710
			D/A (Sub Limit of L/C)	(2,000,000)	4,021,748
			Leasing (Block Leasing Facility)	50,000,000	1,545,560
Other Related Parties					
Acme Printing & Packaging Ltd.	Mr. J.S. Mather	Director	Overdraft	10,000,000	10,156,642
			Letters of Credit	7,500,000	1,949,454
			Import Demand Loans (Sub Limit of L/C)	(5,000,000)	3,648,027
			D/A	-	2,359,186
			Letters of Guarantees	-	234,800
Chemanex Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	40,000,000	20,705,894
			Short-Term Loans (Sub Limit of O/D)	(40,000,000)	-
			Letters of Credit	40,000,000	1,837,359
			D/A (Sub Limit of L/C)	(40,000,000)	4,831,248
			Import Demand Loans (Sub Limit of L/C)	(40,000,000)	-
			Shipping Guarantees	-	16,967,000
			Letters of Guarantee	1,000,000	1,000,000
Chemical Industries (Colombo) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	200,000,000	6,032,515
		Director	Short-Term Loans (Sub Limit of O/D)	(200,000,000)	40,000,000
	Mr. J.S. Mather		Letters of Credit (Sub Limit of O/D)	(150,000,000)	8,423,322
			D/A (Sub Limit of O/D)	(150,000,000)	655,236
			Import Demand Loans (Sub Limit of O/D)	(150,000,000)	-
			Commercial Paper (Sub Limit of O/D)	(125,000,000)	-
			Shipping Guarantees	-	937,000
			Factoring	20,000,000	16,514,695
CIC Agribiotech (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Current Account	-	1,836,683
			Shipping Guarantee	-	5,958,000
CIC Feeds (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	300,000,000	188,556,075
			Short-Term Loans (Sub Limit of O/D)	(300,000,000)	100,000,000
			Letters of Credit	150,000,000	59,257,263
			D/A (Sub Limit of L/C)	(150,000,000)	-
			Import Demand Loans (Sub Limit of L/C)	(150,000,000)	50,324,000
			Term Loan	145,330,000	124,331,060
			Letters of Guarantees	5,000,000	180,800
			Shipping Guarantees	-	336,960,000
CIC Fertilizer (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	890,000,000	Credit Balance
			Short-Term Loans (Sub Limit of O/D)	(890,000,000)	620,000,000
			Letters of Credit (Sub Limit of O/D)	(890,000,000)	-
			D/A (Sub Limit of O/D)	(890,000,000)	52,433,473
			Import Demand Loans (Sub Limit of O/D)	(890,000,000)	-
			Commercial Paper (Sub Limit of O/D)	(250,000,000)	-
			Letters of Guarantee	5,000,000	9,520,070
			Term Loan - Crop Loan	8,000,000	5,450,000
			Govi Sahanaya	30,000,000	16,000,000
			Shipping Guarantees	-	15,784,000
CIC Seeds (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	10,000,000	8,654,456
			Letters of Credit	-	6,827,672
			D/A	-	19,660,130
			Shipping Guarantee	1,500,000	14,896,000

Name of Related Party	Name of Director	Relationship	Accommodation Granted	Limit	Balance Outstanding
				Rs.	Rs.
CIC Vetcare (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	40,000,000	31,317,047
			Short-Term Loans (Sub Limit of O/D)	(40,000,000)	20,000,000
			Letters of Credit	50,000,000	3,107,450
			D/A (Sub Limit of L/C)	(50,000,000)	3,107,349
			Import Demand Loans (Sub Limit of L/C)	(50,000,000)	-
			Shipping Guarantees	-	32,896,000
Cisco Speciality Packaging (Pvt.) Ltd.	Mr. B.R.L. Fernando	Chairman	Overdraft	15,000,000	Credit Balance
			Letters of Credit	20,000,000	12,853,960
			Import Demand Loans	10,000,000	-
			D/A (Sub Limit of IDL)	(10,000,000)	6,333,851
			Letters of Guarantee	5,000,000	-
			Term Loans	40,000,000	16,900,000
Commercial Insurance Brokers (Pvt.) Ltd.	Mr. A.L. Gooneratne	Director	Temporary Overdraft	36,500,000	34,394,281
			Letters of Guarantee	-	2,650,000
			Term Loans	50,000,000	50,000,000
David Pieris Motor Co. Ltd.	Mr. J.S. Mather	Director	Overdraft	30,000,000	Credit Balance
			Short Term Loans (Sub Limit of O/D)	(30,000,000)	-
			Letters of Credit	150,000,000	-
			Import Demand Loans (Sub Limit of L/C)	(50,000,000)	-
			Shipping Guarantees	150,000,000	-
DFCC Bank	Mr. A.N. Fonseka	Director	Overdraft	450,000,000	Credit Balance
			Mr. D.S. Weerakkody	Director	Letters of Credit
			D/A (Sub Limit of L/C)	(400,000,000)	-
			Shipping Guarantee (Sub Limit of L/C)	(400,000,000)	-
			Money Market Placements	600,000,000	-
			Government Security Re-purchase Facility (Sub Limit of MM Placement)	(500,000,000)	-
Orient Motor Company Ltd.	Mr. M.J.C. Amarasuriya	Director	Overdraft	15,000,000	1,275,699
			Term Loans	98,169,851	80,896,761
			Leasing Facilities	42,567,222	10,990,626
Pelwatte Sugar Industries (Pvt.) Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Overdraft	15,000,000	1,444,359
			Term Loans	15,750,000	14,962,500
Post Graduate Institute of Management	Mr. A.N. Fonseka	Member Governing Board	Leasing Facilities	2,166,667	778,408
Rainwear (Pvt.) Ltd.	Mr. B.R.L. Fernando	Director	Overdraft (US \$)	112,000	111,329
			Letters of Credit (US \$)	183,000	-
			Import Loans (Sub Limit of L/C) (US \$)	(183,000)	26,783
Serendib Flour Mills (Pvt.) Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Letters of Credit	-	324,993,888
			Term Loans	366,730,000	202,214,341
The Lighthouse Hotel Ltd.	Mr. B.R.L. Fernando	Director	Overdraft	10,000,000	Credit Balance
United Motors Lanka Ltd.	Mr. M.J.C. Amarasuriya	Chairman	Overdraft	100,000,000	-
			Short-Term Loans (Sub Limit of O/D)	(100,000,000)	100,000,000
			Term Loans	150,000,000	122,500,000
			Lease	6,265,583	5,742,953
			Letters of Credit	45,000,000	13,348,853
			Import Loans / D/A (Sub Limit of L/C)	(45,000,000)	45,382,333
			Letters of Guarantee	-	1,548,066

Related party transactions should be read in conjunction with Note 35 - Directors' Interests in Contracts with the Company.

37. Interest Rate Swaps

The Bank has entered into a swap agreement with Commercial Leasing Company Ltd., which is an Associate Company of the Bank, for a notional value of Rs. 500.000 million for a period of 3 years in August 2005, where the Bank pays interest at a floating rate at AWPLR, whereas Commercial Leasing Company Ltd. pays interest at a fixed rate of 12.50% p.a. Further, the Bank received Rs. 2.500 million as a commitment fee for facilitating the swap arrangement.

38. Events After the Balance Sheet Date

No circumstances have arisen since the Balance Sheet date which would require adjustments to or disclosure in the Financial Statements.

39. Comparative Figures

Amounts shown for the previous year in respect of Lease Receivable in Notes 17.3 & 17.4, Property, Plant & Equipment in Note 21 and Intangible Assets in Note 22 have been reclassified to facilitate comparison.

Income Statement

<i>For the year ended December 31,</i>	Bank			Group		
	2005	2004	Change	2005	2004	Change
	US\$ '000	US\$ '000	%	US\$ '000	US\$ '000	%
Income	157,809	117,660	34.12	159,041	119,069	33.57
Interest income	127,748	91,755	39.23	130,296	93,610	39.19
Less: Interest expenses	70,830	46,703	51.66	73,108	48,247	51.53
Net interest income	56,918	45,052	26.34	57,188	45,363	26.07
Foreign exchange profit	5,753	8,363	(31.21)	5,753	8,363	(31.21)
Fee and commission income	17,249	13,184	30.83	17,248	13,184	30.83
Other income	7,059	4,358	61.98	5,744	3,912	46.83
	86,979	70,957	22.58	85,933	70,822	21.34
Less: Operating expenses						
Personnel costs	20,860	17,292	20.63	21,014	17,426	20.59
Premises, equipment and establishment expenses	11,406	9,962	14.50	11,237	9,754	15.20
Provision for staff retirement benefits	2,313	3,119	(25.84)	2,313	3,119	(25.84)
Loan losses and provisions	4,066	6,694	(39.26)	4,066	6,694	(39.26)
Other overhead expenses	12,635	9,918	27.39	12,334	9,721	26.88
	51,280	46,985	9.14	50,964	46,714	9.10
Profit from operations	35,699	23,972	48.92	34,969	24,108	45.05
Add/(Less): Share of profit/(Loss) before tax of Associate Companies	-	-	-	985	731	34.75
Profit before taxation	35,699	23,972	48.92	35,954	24,839	44.75
Less: Provision for taxation	12,524	7,843	59.68	12,840	8,304	54.62
Profit after taxation	23,175	16,129	43.69	23,114	16,535	39.79
Less: Minority interest	-	-	-	16	17	(5.88)
Net profit for the year	23,175	16,129	43.69	23,098	16,518	39.84
Basic Earnings per Ordinary Share (US\$)	0.15	0.10	50.00	0.15	0.10	50.00
Diluted Earnings per Ordinary Share (US\$)	0.15	0.10	50.00	0.14	0.10	40.00
Dividend per Ordinary Share (US\$)	0.04	0.06	(33.33)	0.04	0.06	(33.33)

Exchange Rate of 1 US Dollar was Rs. 102.02 as at 31.12.2005 (Rs. 104.45 as at 31.12.2004).

US DOLLAR ACCOUNTS

The Income Statement and the Balance Sheet given on pages 126 and 127 are solely for the convenience of shareholders, investors, bankers and other users of Financial Statements and do not form part of the Financial Statements.

As at December 31,	Bank			Group		
	2005 US\$ '000	2004 US\$ '000	Change %	2005 US\$ '000	2004 US\$ '000	Change %
ASSETS						
Cash and short term funds	182,933	116,186	57.45	182,874	116,187	57.40
Balances with Central Banks	88,661	60,504	46.54	88,661	60,504	46.54
Government Treasury Bills and Bonds	185,302	52,865	250.52	187,805	63,635	195.13
Commercial paper	3,995	5,358	(25.44)	3,995	5,358	(25.44)
Securities purchased under						
re-sale agreements	7,921	3,821	107.30	7,921	19,985	(60.37)
Dealing securities	1,786	1,049	70.26	1,786	1,049	70.26
Investment securities	36,183	28,151	28.53	36,184	28,152	28.53
Treasury Bonds maturing after one year	16,801	131,912	(87.26)	16,801	137,663	(87.80)
Bills of Exchange	27,351	26,796	2.07	27,351	26,796	2.07
Loans & advances	1,067,613	790,852	35.00	1,067,609	790,852	34.99
Lease receivable within one year	26,466	19,337	36.87	26,232	19,182	36.75
Lease receivable from one to five years	42,686	31,566	35.23	42,104	31,045	35.62
	<u>1,687,698</u>	<u>1,268,397</u>	33.06	<u>1,689,323</u>	<u>1,300,408</u>	29.91
Investments in associate companies	1,050	1,040	0.96	2,772	2,324	19.28
Investments in subsidiary companies	4,251	4,111	3.41	-	-	-
Interest and fees receivable	11,602	10,504	10.45	11,749	10,946	7.34
Other assets	28,454	13,962	103.80	27,375	13,835	97.87
Property, Plant & Equipment	30,595	26,352	16.10	32,984	28,631	15.20
Intangible assets	1,470	1,371	7.22	1,481	1,371	8.02
Total Assets	<u>1,765,120</u>	<u>1,325,737</u>	33.14	<u>1,765,684</u>	<u>1,357,515</u>	30.07
FINANCED BY						
LIABILITIES						
Deposits from customers	1,250,748	945,235	32.32	1,249,664	944,198	32.35
Dividends payable	2,258	2,205	2.40	2,258	2,224	1.53
Borrowings	131,600	87,025	51.22	131,600	87,025	51.22
Securities sold under						
re-purchase agreements	111,637	86,643	28.85	111,607	117,391	(4.93)
Other liabilities	59,568	33,469	77.98	59,499	33,424	78.01
Tax payable	7,902	4,628	70.74	7,574	4,636	63.37
Deferred taxation	2,212	2,282	(3.07)	2,342	2,401	(2.46)
Debentures	44,633	31,062	43.69	44,633	31,062	43.69
	<u>1,610,558</u>	<u>1,192,549</u>	35.05	<u>1,609,177</u>	<u>1,222,361</u>	31.64
MINORITY INTEREST	-	-	-	130	118	10.17
SHAREHOLDERS' FUNDS						
Share capital	32,615	24,924	30.86	32,615	24,924	30.86
Statutory Reserve Fund	13,929	9,660	44.19	13,937	9,668	44.16
Reserves	108,018	98,604	9.55	109,825	100,444	9.34
Shareholders' funds	<u>154,562</u>	<u>133,188</u>	16.05	<u>156,377</u>	<u>135,036</u>	15.80
Total liabilities, minority interest and shareholders' funds	<u>1,765,120</u>	<u>1,325,737</u>	33.14	<u>1,765,684</u>	<u>1,357,515</u>	30.07
Commitments and contingencies	462,203	420,698	9.87	462,203	420,698	9.87
Net Assets Value per Ordinary Share (US \$)	0.96	0.81	18.52	0.97	0.82	18.29

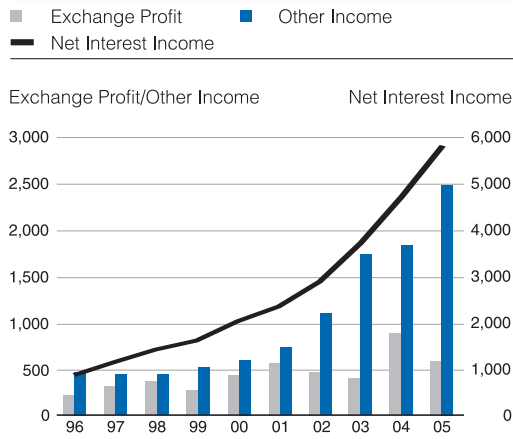
Exchange Rate of 1 US Dollar was Rs. 102.02 as at 31.12.2005 (Rs. 104.45 as at 31.12.2004).

Subsidiary/Associate Companies

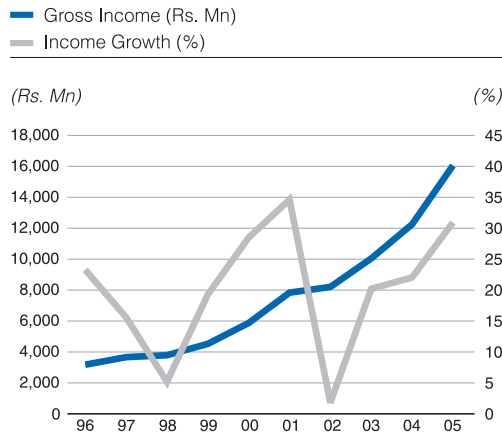
	BANK'S INTEREST	PRINCIPAL ACTIVITY	DIRECTORS	PRE-TAX PROFIT/(LOSS) Rs. Mn.		DIVIDEND RATE %	
				2005	2004	2005	2004
Subsidiary Companies							
Commercial Bank Primary Dealer Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2445010-15, 2336700, 2328193-5, 2332319 Incorporated on October 18, 1999 (Ceased operations on September 30, 2005)	100.0%	Primary Dealer for Government Securities	M.J.C. Amarasuriya (<i>Chairman</i>) J.S. Mather A.L. Gooneratne B.R.L. Fernando A.N. Fonseka G.L.H. Premaratne R. Samaranyake W.M.R.S. Dias D.S. Weeratunge L.W.P. Indrajith (<i>Company Secretary</i>)	12.583	1,637	71	-
ONEzero Co. Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2430420 Incorporated on February 17, 2003	100.0%	Provision of IT Related Services	M.J.C. Amarasuriya (<i>Chairman</i>) J.S. Mather A.N. Fonseka A.L. Gooneratne G.L.H. Premaratne R. Samaranyake W.M.R.S. Dias M.D.A. Peiris S.D. Bandaranayake S.R. Pushpakumara (<i>Company Secretary</i>)	11.560	0.004	-	-
X-pertise Ltd. No. 1, Union Place, Colombo 2. Tel: 2305280, 2305282 Incorporated on October 6, 2004 (Operations commenced in 2005)	100.0%	Training & Development of Human Resources	M.J.C. Amarasuriya (<i>Chairman</i>) A.L. Gooneratne G.L.H. Premaratne R. Samaranyake W.M.R.S. Dias M.D.A. Peiris Mrs. Sarojini Dunuwille (<i>Company Secretary</i>)	(0.705)	-	-	-
Commercial Development Co. Ltd. "Commercial House", 21, Bristol Street, Colombo 1. Tel: 2447300 Incorporated on March 14, 1980	94.55%	Property Development	M.T.L. Fernando (<i>Chairman</i>) A.L. Gooneratne J.S. Mather Dr. H.S. Wanasinghe M.A. Pemasiri G.L.H. Premaratne S.R. Pushpakumara (<i>Company Secretary</i>)	47.868	51.801	11	26
Associate Companies							
Commercial Fund Management (Pvt.) Ltd. 108 A, 1/1, Maya Avenue, Colombo 6. Tel: 2506347, 5373747 Incorporated on January 20, 1992	50.0%	Fund Management	M.J.C. Amarasuriya (<i>Chairman</i>) H.D.S. Amarasuriya A.L. Gooneratne R. Melville R. Hill E.A.D. Perera (<i>Alternate</i>) Mrs. R.R. Dunuwille (<i>Company Secretary</i>)	11.055	6.471	10	10
Commercial Leasing Co. Ltd. 68, Baudhaloka Mawatha, Colombo 4. Tel: 4526526 Incorporated on April 22, 1988	30.0%	Leasing, Factoring, Hire Purchase and Hiring of Vehicles	H.D.S. Amarasuriya (<i>Chairman</i>) M.J.C. Amarasuriya A.L. Gooneratne M.P. Jayawardena K.K. Shah P.R. Saldin H.A. Peiris (<i>Alternate</i>) Nihal A. Rodrigo (<i>Company Secretary</i>)	312.732	236.550	65	40
Equity Investments Lanka Ltd. 108 A, 1st Floor, Maya Avenue, Colombo 6. Tel: 5373745, 2507605-6 Incorporated on August 08, 1990	22.92%	Venture Capital Financing	M.J.C. Amarasuriya (<i>Chairman</i>) H.D.S. Amarasuriya S.T. Nagendra A.L. Gooneratne Deshabandu S.E. Captain YAM. T.T.S.I.I.T. Ja'afar E.A.D. Perera (<i>Alternate</i>) Mrs. R.R. Dunuwille (<i>Company Secretary</i>)	5.521	9.403	5	-

The Dividend rates shown above for 2005 are the Interim Dividends paid by the respective companies.

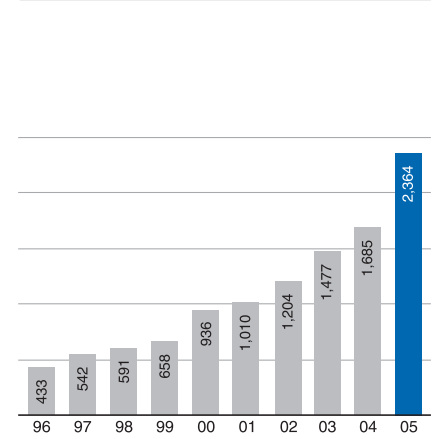
Net Interest Income, Exchange Profit & Other Income (Rs. Mn.)



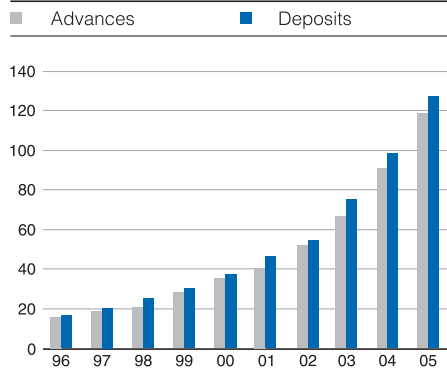
Gross Income & Income Growth



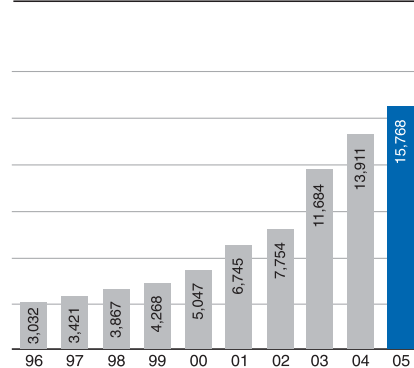
Profit after Taxation (Rs. Mn.)



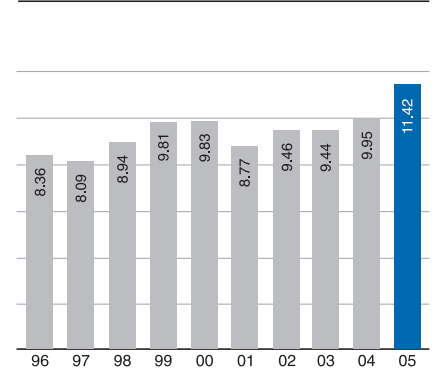
Balance Sheet Growth (Rs. Bn.)



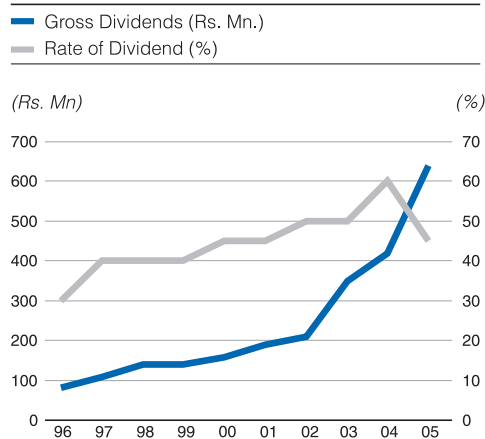
Ordinary Shareholders' Funds (Rs. Mn.)



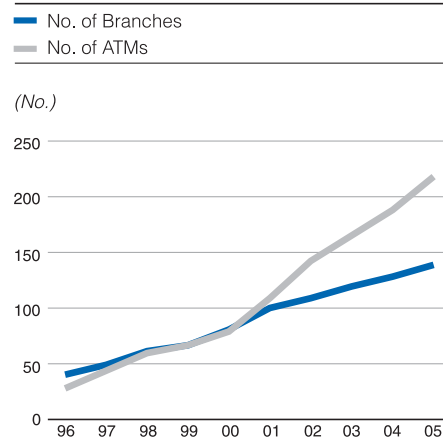
Total Assets to Shareholders' Funds (Times)



Gross Dividends to Shareholders & Rate of Dividend



Branches & ATM Expansion



Decade at a Glance

Bank

(Rs. Mn.)

For the year ended December 31

OPERATING RESULTS

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	CAGR %
Income	3,365	3,781	3,979	4,744	6,096	8,203	8,364	10,059	12,290	16,100	19.43
Interest income	2,553	2,876	3,031	3,762	4,796	6,510	6,613	7,931	9,584	13,033	
Interest expenses	(1,572)	(1,723)	(1,605)	(2,158)	(2,776)	(4,174)	(3,747)	(4,218)	(4,878)	(7,226)	
Foreign Exchange profit	219	320	362	274	421	563	464	397	874	587	
Commission & other income	461	440	440	517	600	732	1,097	1,731	1,832	2,480	
Operating expenses & provisions	(1,081)	(1,261)	(1,459)	(1,586)	(1,891)	(2,306)	(2,902)	(3,887)	(4,908)	(5,232)	
Profit before income tax	580	652	769	809	1,150	1,325	1,525	1,954	2,504	3,642	22.24
Income tax on profit	(147)	(110)	(178)	(151)	(214)	(315)	(321)	(477)	(819)	(1,278)	
Net profit for the year	433	542	591	658	936	1,010	1,204	1,477	1,685	2,364	21.80

As at December 31

ASSETS

Cash and short-term funds	4,363	4,639	8,440	3,761	5,456	4,272	1,835	9,002	12,136	18,663	
Balances with Central Banks	2,274	1,938	1,840	2,644	2,583	3,091	3,244	5,233	6,320	9,045	
Government Treasury Bills and Bonds	-	-	409	3,573	1,449	5,307	9,436	15,930	19,300	20,618	
Commercial paper	-	-	-	745	331	1,170	1,080	546	560	408	
Securities purchased under re-sale agreements	20	-	70	-	-	1,064	832	6,184	399	808	
Dealing & Investment Securities	308	658	409	300	208	462	905	2,606	3,050	3,873	
Placements with banks maturing after one year	-	-	-	289	-	-	-	-	-	-	
Bills of Exchange	2,135	2,074	1,597	1,873	2,331	2,368	2,552	2,494	2,799	2,790	} 24.92
Loans and advances	13,414	15,690	18,312	24,787	31,703	36,730	47,350	60,585	82,605	108,918	
Lease receivable	177	489	730	1,047	1,263	1,519	1,921	3,364	5,317	7,055	
	22,691	25,488	31,807	39,019	45,324	55,983	69,155	105,944	132,484	172,178	
Investments in associate companies	128	128	78	78	78	78	78	78	109	107	
Investments in subsidiary companies	274	274	274	274	424	424	424	429	429	434	
Other assets	1,571	972	1,368	1,253	2,478	1,251	2,149	2,168	2,553	4,087	
Property, Plant & Equipment and Intangible Assets	671	797	1,059	1,263	1,306	1,410	1,546	1,661	2,896	3,271	
TOTAL ASSETS	25,335	27,659	34,586	41,887	49,610	59,146	73,352	110,280	138,473	180,077	24.40

LIABILITIES

Deposits from customers	16,611	20,156	25,274	30,128	37,523	46,306	54,585	75,185	98,730	127,601	25.61
Dividends Payable	48	75	98	98	108	163	118	190	230	230	
Borrowings	2,601	1,321	1,124	1,350	2,317	1,862	4,200	5,405	9,090	13,426	
Securities sold under re-purchase agreements	1,030	1,468	2,130	3,371	1,430	228	1,938	10,580	9,050	11,389	
Other liabilities	1,975	1,226	1,594	2,168	2,643	3,263	4,218	4,844	3,736	6,304	
Taxation	38	(8)	(1)	4	42	79	39	148	483	806	
Debentures	-	-	500	500	500	500	500	2,244	3,244	4,553	
	22,303	24,238	30,719	37,619	44,563	52,401	65,598	98,596	124,562	164,309	

SHAREHOLDERS' FUNDS

Share capital	268 ^{@#1}	268	348 ⁺	348	348	1,324 ^{~^1}	1,324	2,603 ^{*A}	2,603	3,327 ^{**}	
Reserve fund	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,009	1,421	
Reserves	1,755	2,144	2,510	2,911	3,690	4,412	5,421	8,072	10,299	11,020	
TOTAL LIABILITIES & SHAREHOLDERS' FUNDS	25,335	27,659	34,586	41,887	49,610	59,146	73,352	110,280	138,473	180,077	24.40
Commitments and contingencies	10,517	13,768	14,612	15,445	17,880	19,749	24,082	38,158	43,942	47,154	

CAGR - Compounded Annual Growth Rate. over the last decade

Bank	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
RATIOS										
Return on average -										
shareholders' funds (%)	17.00	16.80	16.20	16.21	20.09	17.13	16.61	15.20	13.16	15.93
Income growth (%)	23.40	15.71	5.24	19.25	28.49	34.56	1.96	20.26	22.17	31.00
Return on average assets (%)	1.90	2.05	1.90	1.72	2.05	1.86	1.82	1.61	1.35	1.48
Rate of dividend (%)	30.00	40.00	40.00	40.00	45.00	45.00	50.00	50.00	60.00	45.00
Ordinary share dividend cover (times)	5.39	3.90	4.24	4.73	5.91	5.20	5.20	3.70	3.48	3.34
Gross dividends										
to ordinary shareholders (Rs. Mn.)	80.40	107.10	139.30	139.30	156.71	188.06	208.95	348.25	418.10	639.36
Advances to deposits and										
refinance (%)	92.50	88.95	80.42	89.75	91.81	85.51	92.59	86.16	89.52	90.64
Property, Plant & Equipment to										
shareholders' funds (%)	22.14	23.29	27.37	29.72	25.87	20.90	19.93	14.22	20.81	20.75
Total assets to shareholders'										
funds (times)	8.36	8.09	8.94	9.81	9.83	8.77	9.46	9.44	9.95	11.42
Capital Funds to Liabilities including										
Contingent Liabilities (%)	9.24	9.00	8.53	8.04	8.08	9.35	8.65	8.54	8.26	7.46
Cost/Income Ratio (%)	56.53	55.62	56.91	58.66	54.75	55.27	55.46	55.87	56.78	54.28
Liquid assets to liabilities (%)	28.17	25.36	24.97	22.19	27.22	27.72	27.88	23.95	23.17	24.51
(As specified in the Banking Act										
No. 30 of 1988)										
Group Capital Adequacy (%) Tier I	17.13	16.71	15.53	14.90	14.97	15.72	14.94	13.43	10.78	9.68
Tier I & II	17.47	17.63	18.45	17.14	16.62	16.20	15.07	15.46	13.16	12.08
INFORMATION ON ORDINARY SHARES										
Market value of a voting share (Rs.)	124	150	120	115	93	127	200	144	159.75	135.50
Basic earnings per share (Rs.)	3	4	4	5	7	7	8	9	10	15
Price earnings ratio (times)	7	10	7	6	4	5	8	8	8	9
Net assets value per share (Rs.)	21	24	27	30	36	41	48	69	84	98
Earnings yield (%)	15	11	14	16	29	18	13	13	13	11
Dividend payout ratio (%)	17	25	24	21	17	22	18	27	29	30
OTHER INFORMATION										
No. of employees	1,837	1,889	1,985	1,996	2,067	2,259	2,399	2,648	2,863	3,168
No. of branches / CSPs / MiniComs/										
Service Points - Sri Lanka	41	49	61	67	81	100	109	116	125	134
No. of branches / booths - Bangladesh	-	-	-	-	-	-	-	4	4	5
No. of Automated Teller Machines	29	44	60	67	79	109	143	166	188	223

@ Scrip issue of three bonus shares for every five ordinary shares held was made in April 1996.

Rights issue of one ordinary share for every four shares held was made in October 1996.

! Issue of 894,275 non-voting ordinary shares to the shareholders of Commercial Development Co. Ltd. was made during the year 1996 on the offer for share swap.

+ Scrip issue of three bonus shares for every ten ordinary shares held was made in June 1998.

~ Scrip issue of one bonus share for every five ordinary shares held was made in May 2001.

^ Issue of 13% Cumulative Redeemable Preference Shares of Rs. 10/- each for Rs. 906.555 million was made in August 2001.

* Scrip issue of one bonus share for every three ordinary shares held was made in May 2003.

▲ Rights issue of one ordinary share for every four ordinary shares held was made in October 2003.

• Issue of 11.25% Cumulative Redeemable Preference Shares of Rs. 10/- each for Rs. 1,000.000 million was made in May 2003.

** Scrip issue of one bonus share for every one ordinary share held was made in June 2005.

Share and Debenture Information

1. Stock Exchange Listing

The ordinary shares, both voting and non-voting, preference shares and 2003/2008 debentures, both fixed and floating interest rate, of the Bank are listed in the Colombo Stock Exchange. The audited Income Statement for the year ended December 31, 2005 and the audited Balance Sheet of the Bank as at date will be submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

2. Ordinary Shareholders

As at December 31, 2005

2.1 Voting

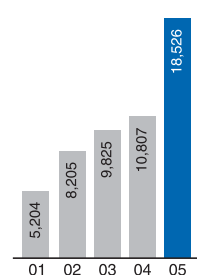
Range of Shareholdings	Resident		Non-Resident		Total		
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	%
Up to 500 shares	2,365	438,374	19	3,654	2,384	442,028	0.33
501 - 5,000	2,879	5,782,176	75	170,950	2,954	5,953,126	4.48
5,001 - 10,000	491	3,469,269	20	136,594	511	3,605,863	2.72
10,001 - 20,000	290	3,977,537	7	104,910	297	4,082,447	3.07
20,001 - 30,000	114	2,755,295	4	106,361	118	2,861,656	2.16
30,001 - 40,000	43	1,465,076	2	73,425	45	1,538,501	1.16
40,001 - 50,000	26	1,154,772	-	-	26	1,154,772	0.87
50,001 - 100,000	40	2,812,012	3	189,000	43	3,001,012	2.26
100,001 - 1,000,000	46	13,306,591	3	751,100	49	14,057,691	10.59
Over 1,000,000 shares	10	82,808,426	1	13,275,000	11	96,083,426	72.36
	6,304	117,969,528	134	14,810,994	6,438	132,780,522	100.00

There were 5,575 resident and 138 non-resident shareholders as at December 31, 2004.

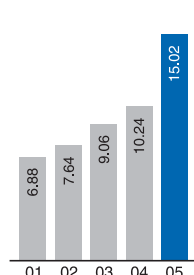
Analysis of Shareholders	December 31, 2005			December 31, 2004		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	5,800	36,634,561	27.59	5,429	16,156,513	24.84
Institutions	638	96,145,961	72.41	284	48,873,256	75.16
	6,438	132,780,522	100.00	5,713	65,029,769	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2005 was 45.93% (44.84% as at December 31, 2004).

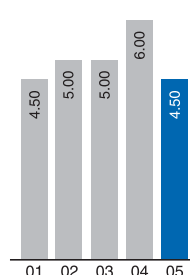
Market Capitalisation
(Rs. Mn.)



Earnings per Share
(Rs.)

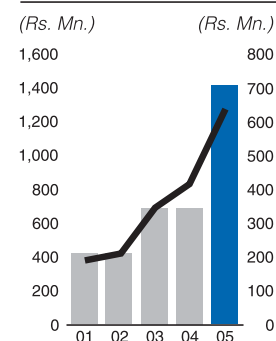


Dividend per Share
(Rs.)



Ordinary Share Capital & Gross Dividend on Ordinary Shares

■ Ordinary Share Capital
— Gross Ordinary Dividend



2.2 Non-Voting

Range of Shareholdings	Resident		Non-Resident		Total		
	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	No. of Shareholders	No. of Shares	%
Up to 500 shares	1,094	234,192	14	2,887	1,108	237,079	2.55
501 - 5,000	1,005	1,797,253	14	26,216	1,019	1,823,469	19.61
5,001 - 10,000	128	930,955	8	64,918	136	995,873	10.71
10,001 - 20,000	71	1,008,309	3	53,800	74	1,062,109	11.42
20,001 - 30,000	20	455,114	1	25,500	21	480,614	5.17
30,001 - 40,000	19	674,922	-	-	19	674,922	7.25
40,001 - 50,000	10	451,694	1	43,000	11	494,694	5.32
50,001 - 100,000	11	758,604	1	57,400	12	816,004	8.77
100,001 - 1,000,000	10	2,715,696	-	-	10	2,715,696	29.20
Over 1,000,000 shares	-	-	-	-	-	-	-
	2,368	9,026,739	42	273,721	2,410	9,300,460	100.00

There were 1,375 resident and 37 non-resident shareholders as at December 31, 2004.

Analysis of Shareholders	December 31, 2005			December 31, 2004		
	No. of Shareholders	Total Holdings	%	No. of Shareholders	Total Holdings	%
Individuals	2,260	5,749,710	61.82	1,305	2,572,871	55.33
Institutions	150	3,550,750	38.18	107	2,077,359	44.67
	2,410	9,300,460	100.00	1,412	4,650,230	100.00

As per the Rule No. 8.7 (h) of the Colombo Stock Exchange, percentage of public holding as at December 31, 2005 was 87.95% (88.00% as at December 31, 2004).

3. Twenty largest Shareholders as at December 31

Ordinary Voting Shares

Name of the Shareholder	2005		2004*	
	No. of Shares	%	No. of Shares	%
DFCC Bank	38,706,270	29.15	19,353,135	29.76
HSBC Intl. Nominees Ltd. - SSBT - International Finance Corporation	19,500,000	14.69	9,750,000	14.99
Abdulaziz Mohammed A. Almeshaal	13,275,000	10.00	-	-
Sri Lanka Insurance Corporation Ltd. - Life Fund	6,931,620	5.22	3,465,810	5.33
Sri Lanka Insurance Corporation Ltd. - General Fund	5,960,240	4.49	2,980,120	4.58
Distilleries Company of Sri Lanka Ltd.	2,989,970	2.25	1,494,985	2.30
National Savings Bank	2,694,382	2.03	1,907,891	2.93
HSBC Intl. Nominees Ltd. - BPSS Lux - Aberdeen Global Asia Pacific Fund	2,627,000	1.98	1,213,500	1.87
Yonmerenge Simon Hewage Indra Kumar Silva	1,158,944	0.87	579,472	0.89
HSBC Intl. Nominees Ltd. - SSBTL - Aberdeen Asian Smaller Companies Investment Trust XC.	1,150,000	0.87	575,000	0.88
HSBC Intl. Nominees Ltd. - JPMCB - Scottish ORL SML TR GTI 6018	1,090,000	0.82	545,000	0.84
HSBC Intl. Nominees Ltd. - BPSS LDN - Aberdeen Intl. Fund PLC - Asian	984,000	0.74	300,000	0.46
HSBC Ltd. - National Equity Fund	880,000	0.66	397,056	0.61
Hatton National Bank Ltd. A/C No. 1	825,332	0.62	412,666	0.63
Bank of Ceylon A/c Ceybank Unit Trust	777,634	0.59	546,467	0.84
Freudenberg Shipping Agencies Ltd.	771,100	0.58	248,932	0.38
City Properties (Pvt.) Ltd.	669,400	0.50	334,700	0.52
Northern Trust Co. S/A Murray Johnstone International Delaware Business Trust	660,000	0.50	30,000	0.05
Employees' Trust Fund Board	550,232	0.41	332,816	0.51
HSBC Ltd. - Comtrust Equity Fund	400,382	0.30	262,191	0.40
Sub Total	102,601,506	77.27	44,729,741	68.77
Others	30,179,016	22.73	20,300,028	31.23
Total	132,780,522	100.00	65,029,769	100.00

* Comparative shareholdings as at December 31, 2004 of the twenty largest shareholders as at December 31, 2005.

Share and Debenture Information

Ordinary Non-Voting Shares

Name of the Shareholder	2005		2004*	
	No. of Shares	%	No. of Shares	%
Sri Lanka Insurance Corporation Ltd. - General Fund	987,670	10.62	493,835	10.62
Akbar Brothers Ltd. A/C No. 1	381,316	4.10	323,066	6.95
The Associated Newspapers of Ceylon Ltd.	208,262	2.24	104,131	2.24
The Gilpin Fund Ltd.	200,000	2.15	100,000	2.15
Sino Lanka (Pvt) Ltd.	192,364	2.06	147,582	3.17
M.S.H. Packaging Industries Ltd.	190,300	2.04	72,000	1.55
JB Cocoshell (Pvt) Ltd.	185,800	2.00	26,500	0.57
M.J.F. Exports Ltd.	160,776	1.73	80,388	1.73
Mahendra Jayanthipal Chandima Amarasuriya	104,932	1.13	50,466	1.09
Lambert Maasiri Maalyn Dias	104,276	1.12	52,138	1.12
Alpex Marine (Pvt) Ltd.	100,000	1.07	-	-
Jayampathi Divale Bandaranayake	86,352	0.93	18,176	0.39
Deepa Naraindas Hundlani	78,000	0.84	-	-
Ananda Krishnakumar Abeytunga Jayawardene	70,724	0.76	29,362	0.63
Velupillai Ponnampalam Parama Lingam	70,700	0.76	10,000	0.21
Jayalath Githal De Mel	64,750	0.70	21,375	0.46
Muhammad Jaffer Ismail	62,700	0.67	-	-
Renuka Holdings Ltd.	60,014	0.65	30,007	0.65
Rajaratnam Senathirajah	60,000	0.65	10,000	0.21
Harnam Singh Mantha Singh	57,400	0.62	-	-
Sub Total	3,426,336	36.84	1,569,026	33.74
Others	5,874,124	63.16	3,081,204	66.26
Total	9,300,460	100.00	4,650,230	100.00

* Comparative shareholdings as at December 31, 2004 of the twenty largest shareholders as at December 31, 2005.

4. Market Value of Shares

	2005 Rs.	2004 Rs.
Ordinary Shares		
Voting		
Highest	269.00	170.00
Lowest	120.00	130.00
Year end	135.50	159.75
Non-Voting		
Highest	160.00	126.00
Lowest	51.00	80.00
Year end	57.50	90.00
13% Cumulative Redeemable Preference Shares		
Highest	11.25	10.25
Lowest	9.00	10.00
Year end	9.75	10.25
11.25% Cumulative Redeemable Preference Shares		
Highest	11.25	11.00
Lowest	9.00	9.00
Year end	9.75	10.00

5. Information on Debentures

5.1 Debentures - 2003/2008 Series

5.1.1 Market Values

	Fixed Interest Rate		Floating Interest Rate	
	2005 Rs.	2004 Rs.	2005 Rs.	2004 Rs.
Highest	970.00	1,000	971.00	1,050
Lowest	970.00	1,000	971.00	1,050
Year end	970.00	1,000	971.00	1,050
	(As at 05.10.05)	(As at 02.03.04)	(As at 05.10.05)	(As at 13.10.04)

	Fixed Interest Rate		Floating Interest Rate			
	2005	2004	2005	2004		
5.1.2 Interest Rates						
Coupon Rate	10.00%	10.00%	11.62%*	9.45%*		
Effective Annual Yield	10.38%	10.38%	10.77%	9.79%		
* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills after 10% WHT rate plus 2% p.a. is payable quarterly. This was the coupon rate applicable to the fourth quarter.						
5.1.3 Interest Rate of Comparable Government Security						
Interest Rate of Comparable Government Security	11.05%	9.05%	11.05%	9.20%		
5.1.4 Other Ratios						
Interest yield as at date of last trade	10.70%	10.00%	11.10%	9.00%		
	(As at 05.10.05)	(As at 02.03.04)	(As at 05.10.05)	(As at 13.10.04)		
Yield to Maturity of last trade	12.68%	10.38%	13.05%	9.31%		
	(As at 05.10.05)	(As at 02.03.04)	(As at 05.10.05)	(As at 13.10.04)		
5.2 Debentures - 2004/2009 Series						
5.2.1 Market Values						
			Floating Interest Rate			
			2005	2004		
			Rs.	Rs.		
Highest			(These	(These		
Lowest			debentures are	debentures are		
Year end			not quoted)	not quoted)		
5.2.2 Interest Rates						
Coupon Rate			11.62%*	9.45%*		
Effective Annual Yield			10.77%	9.79%		
* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills after 10% WHT rate plus 2% p.a. is payable quarterly. This was the coupon rate applicable to the fourth quarter.						
5.2.3 Interest Rate of Comparable Government Security						
Interest Rate of Comparable Government Security			11.20%	9.05%		
5.2.4 Other Ratios						
Interest yield as at date of last trade			-	-		
Yield to Maturity of last trade			-	-		
5.3 Debentures - 2005/2010 Series						
5.3.1 Market Values						
	Fixed Interest Rate		Floating Interest Rate		Floating Interest Rate	
	2005	2004	2005	2004	2005	2004
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Highest	(These	-	(These	-	(These	-
Lowest	debentures are	-	debentures are	-	debentures are	-
Year end	not quoted)	-	not quoted)	-	not quoted)	-
5.3.2 Interest Rates						
Coupon Rate	12.00%	-	11.65%*	-	11.73%**	-
Effective Annual Yield	12.55%	-	11.65%	-	11.73%	-
* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills after 10% WHT rate plus 2% p.a. is payable quarterly. This was the coupon rate applicable to the fourth quarter.						
** Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills before 10% WHT rate plus 1% p.a. is payable quarterly. This was the coupon rate applicable to the fourth quarter.						

Share and Debenture Information

	Fixed Interest Rate		Floating Interest Rate*		Floating Interest Rate**	
	2005	2004	2005	2004	2005	2004
5.3.3 Interest Rate of Comparable Government Security						
Interest Rate of Comparable Government Security	11.25%	-	11.25%	-	11.25%	-
5.3.4 Other Ratios						
Interest yield as at date of last trade	-	-	-	-	-	-
Yield to Maturity of last trade	-	-	-	-	-	-

* Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills after 10% WHT rate plus 2% p.a. is payable quarterly.

** Floating coupon rate equivalent to the weighted average yield of the three months Government of Sri Lanka Treasury Bills before 10% WHT rate plus 1% p.a. is payable quarterly.

5.4 Other Ratios

	2005	2004
Debt Equity Ratio (%)	33.89	27.67
Interest Cover (Times)	10.82	11.61
Quick Assets Ratio (%)	24.51	23.17

6. Market Capitalisation

Market capitalisation of the Bank which is the number of ordinary shares in issue multiplied by the market value of a share was Rs. 18,526 million as at December 31, 2005 (Rs. 10,807 million as at December 31, 2004). This accounted for 3.07% (2.83% in 2004) of the total Market Capitalisation of the Colombo Stock Exchange and ranked number 4 (number 6 in 2004) among the listed public companies. Commercial Bank ranked number 15 in terms of the value of the shares traded on the Colombo Stock Exchange (Number 16 in 2004).

7. Dividends

On Ordinary Shares	2005	2004
Interim paid	15%	20%
Final proposed/paid	30%	40%
Total	45%	60%

On 13% and 11.25% Cumulative Redeemable Preference Shares - dividends were paid on January 3, 2006 for the year ended December 31, 2005 (on January 4, 2005 for the year ended December 31, 2004).

8. Share Trading

Ordinary Shares	2005	2004
No. of transactions	14,790	4,136
No. of shares traded	31,784,500	8,411,800
Value of shares traded (Rs.)	4,667,195,475	1,214,404,275
13% Cumulative Redeemable Preference Shares		
No. of transactions	11	3
No. of shares traded	33,300	6,000
Value of shares traded (Rs.)	317,425	60,875
11.25% Cumulative Redeemable Preference Shares		
No. of transactions	21	30
No. of shares traded	151,800	577,200
Value of shares traded (Rs.)	1,459,875	5,965,950

9. Financial Ratios

Key financial ratios are given in the "Decade at a Glance" on page 131.

10. Investments

The details of investments in shares of Subsidiary/Associate companies are given on pages 108 and 128.

1920	The Eastern Bank Ltd. (EBL) opens a branch in Chatham Street.
1957	The share capital of EBL is acquired by Chartered Bank.
1969	The Commercial Bank of Ceylon Ltd. incorporated with EBL holding 40% of its equity.
1971	The business of the EBL is taken over by the Chartered Bank.
1973	The Galle, Jaffna and Kandy branches of the Mercantile Bank Ltd. are acquired by the Bank.
1979	The Foreign Currency Banking Unit is formed.
1980	Commercial Development Company Ltd. is incorporated to construct a Headquarters for the Bank with a 40% equity participation.
1984	The Headquarters of the Bank is shifted to "Commercial House", 21, Bristol Street, Colombo 1.
1985	The Foreign Department is elevated to the status of a fully-fledged branch. This move completed the reorganisation process whereby three independent offices representing the City Office, the Foreign Branch and the Head Office were created by segregating the different operations.
1987	EBL changes its name to Standard Chartered (UK) Holdings Ltd.
1988	An associate company, Commercial Leasing Company Ltd. is formed.
1992	The Bank sponsors a Fund Management Company, Commercial Fund Management (Pvt.) Ltd. for the purpose of operating unit trusts. The first unit trust launched in March 1992. The Bank enjoys a 50% equity participation in this company.
1993	Introduction of the Core Banking Software-International Comprehensive Banking System (ICBS) linking nine metropolitan branches.
1997	Standard Chartered Bank sells its 40% stake in the Bank.
1998	365 day branch at Colombo 7 Branch is opened. All branches except Jaffna are linked to the ICBS.
1999	Banking and supermarketing are combined by opening the first "MiniCom" at the Staples Street Cargills Food City outlet. Rated as the Best Bank in Sri Lanka by "Global Finance".
2000	Internet Banking is launched. Rated as the Best Bank in Sri Lanka by "Global Finance" for the second consecutive year.
2001	Receives SL AA+ rating from Fitch Ratings Lanka Ltd. Rated as the Best Bank in Sri Lanka by "Global Finance" for the third consecutive year. Selected as the Bank of the Year by "The Banker" Magazine.

2002 Selected as the No. 1 Corporate in Sri Lanka by "Business Today" Magazine. Rated as the best Bank in Sri Lanka by "Global Finance" for the fourth consecutive year. Selected as the Bank of the Year by "The Banker" Magazine for the second consecutive year. Fitch Ratings Lanka Ltd. upholds the SL AA+ rating in their annual review. Winner of the overall National Award for HRM - 2002. South Asian Federation of Accountants (SAFA) ranks the Bank's Annual Report for 2001 to be the first in the Financial Sector.

2003 Rated as the Best Bank in Sri Lanka by "Global Finance" for the fifth consecutive year. Selected as the Bank of the Year by "The Banker" Magazine for the third consecutive year. Fitch Ratings Lanka Ltd. upholds the SL AA+ rating in their annual review. SAFA rates Annual Report 2002 as the Best Presented Accounts of the Financial Sector. The Institute of Chartered Accountants of Sri Lanka (ICASL) ranks the Annual Report 2001 of the Bank as the Overall Winner, the Winner of the Financial Sector and Winner of Corporate Governance Disclosure Award. The operations of Credit Agricole Indosuez in Bangladesh is taken over. The first service point at Arpico Super Centre was opened at Dehiwela.

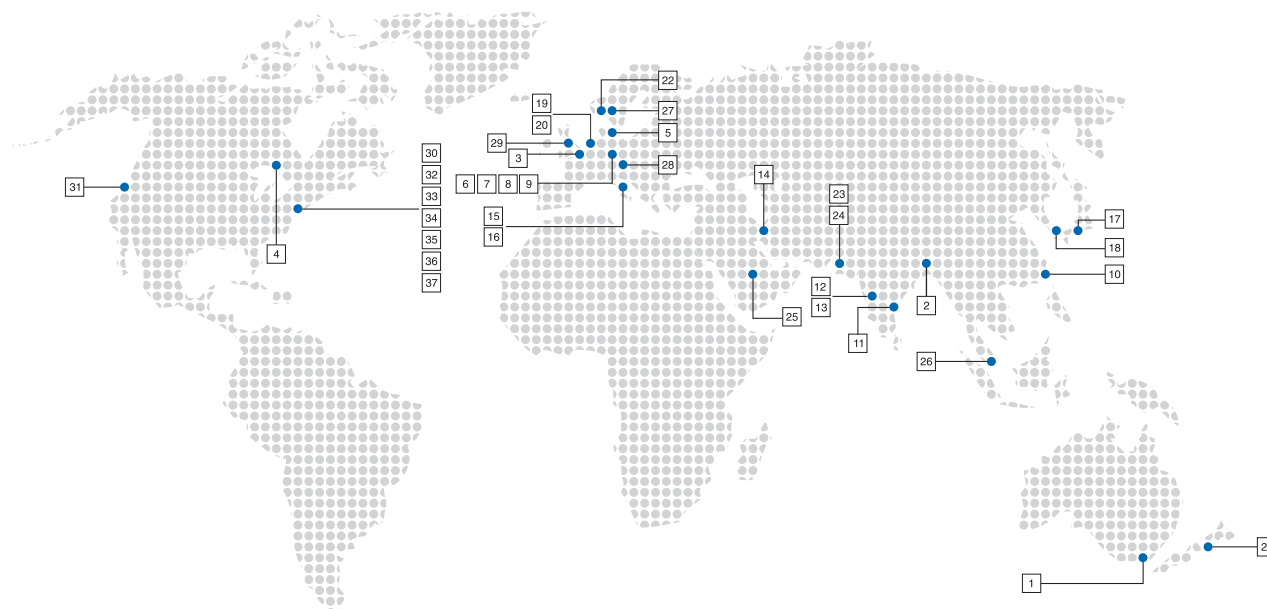
2004 Rated as the Best Bank in Sri Lanka by "Global Finance" for the sixth consecutive year. Selected as the Bank of the Year by "The Banker" Magazine for the fourth consecutive year. Fitch Ratings Lanka Ltd. upholds the AA+ (sri) rating in their annual review. SAFA rates Annual Reports 2002 and 2003 as the Best Presented Accounts of the Financial Sector. The ICASL ranks the Annual Reports 2002 and 2003 of the Bank as follows:

Award	2003	2002
Overall	Winner	Winner
Banking Sector	Winner	Winner
Corporate Governance Disclosure	Joint 1st Runners up	Winner
Corporate Social Responsibility	Joint 1st Runners up	Joint 2nd Runners up

Overall HRM winner in the Large Service Sector and winner - most innovative HR Practices. Commercial Bank Social Responsibility Trust was set up in September.

2005 Rated as the Best Bank in Sri Lanka by "Global Finance" for the seventh consecutive year. Selected as the Bank of the Year by "The Banker" Magazine for the fifth consecutive year. Fitch Ratings Lanka Ltd. upholds the AA+ (sri) rating in their annual review. SAFA rates Annual Report 2004 as the Overall Winner and the Best Presented Accounts of the Financial Sector. The ICASL ranks the Annual Report 2004 of the Bank as the Overall Winner, the Winner of the Financial Sector and the Winner of Corporate Governance Disclosure Award. Won three awards at the 'National Business Excellence Awards - 2005' organised by the National Chamber of Commerce. Raises US \$ 65 million 2-year syndicated loan with an option to extend it for a further year at the option of the lender, the first such loan by a non-sovereign corporate in the country. Makes a scrip issue on the basis of 1:1. Introduces the first mobile ATM in the country.

Correspondent Banks



Country	Name & Address of the Bank	BIC Code/Swift	CCY	Account No.	Web site
Australia	1 National Australia Bank 11/120, Spencer Street, Melbourne Victoria 3000 - Australia	NATAAU33033	AUD	1803020052500	national.com.au
Bangladesh	2 Commercial Bank of Ceylon Ltd. 47, Motijheel Commercial Area, P.O. Box 3490, Dhaka 1000, Bangladesh	CCEYBDDH	AC\$	2-802000017	combank.net
Belgium	3 Fortis Bank NV/SA Montagne DU PARC 3, B-1000, Brussels, Belgium	GEBABEBB	EUR	291-1179210-78	fortis.com
Canada	4 Canadian Imperial Bank of Commerce Int'l Dept. Head Office, Commerce Court, Toronto M5L 1H1, Canada	CIBCCATT	CAD	1733117	cibc.com
Denmark	5 Nordea Bank Denmark A/S P.O. Box 850, DK-0900, Copenhagen, Denmark	NDEADKKK	DKK	5000408909	nordea.com
Germany	6 American Express Bank GmbH Data & Exposure Control, P.O. Box 110162 Theodor - Heuss - Allee 112, D60036 Frankfurt AM Main, Germany	AEIBDEF	EUR	018109406	amexbank.de
	7 Bayerische Hypo und Vereins Bank AG D-80311 Muenchen, Germany	HYVEDEMM	EUR	69101429	hvb.com hvb.de
	8 Commerz Bank AG ZTB BC Mitte 6.4, Mainzer Landstrasse 277-293, 60261, Frankfurt AM Main, Germany	COBADEFF	EUR	400872103701	commerzbank.com
	9 West LB AG Girozentrale-P.O. Box D40199, Dusseldorf, Germany	WELADED	EUR	59031/EUR	westlb.com westlb.de
Hong Kong	10 Standard Chartered Bank P.O. Box 21, 9th Floor, 4-4A, Des Voeux Road, Central Hong Kong	SCBLHKHH	HKD	41109468048	standardchartered.com
India	11 American Express Bank Ltd. 187, Mount Road, Chennai 600 006, India	AEIBINDXMAS	AC\$	510280024	americanexpress.com
	12 ICICI Bank Ltd. ICICI Bank Towers, Bandra-Kurla Complex, Bandra (East), Mumbai 400 051, India	ICICINBB	AC\$	000406000181	icicibank.com
	13 Standard Chartered Bank 23-25, Mahathma Gandhi Road, P.O. Box 558, Mumbai 400 001, India	SCBLINBB	AC\$	22205031885	standardchartered.com

Country	Name & Address of the Bank	BIC Code	CCY	Account No.	Web site
Iran	14 Bank Melli Iran Int'l Dept. Asian Section, P.O. Box 11365-171, Ferdowsi Avenue, Tehran, Iran	MELIIRTH	AC\$	12-08-504	bmi.ir
Italy	15 Capitalia Societa Per Azioni Viale, Mberto, Tutini, 180, 1-00144 Rome, Italy	BROMITRR	EUR	1000271	capitalia.it
	16 Banca Intesa BCI #2612 Head Office, Int'l Money Transfer Dept., Piazza Della Scala 6, 20121 Milan, Italy	BCITITMM	EUR	9629220249	bancaintesa.it
Japan	17 Standard Chartered Bank P.O. Box 9997, 21st Floor, Sanno Park, Tower 2-11-1, Nagata-cho, Chiyoda-ku, Tokyo 100-6155, Japan	SCBLJPJT	JPY	2168531110	standardchartered.com
Korea	18 Kookmin Bank 9-1, 2GA, Namdaemun - RO, Jung - GU, Seoul 100-703, Korea	CZNBKRSE	US\$	759-8-US\$-01-0	kbstar.com
Netherlands	19 ABN Amro Bank N.V. 32, Vijzelstraat, P.O. Box 669, Amsterdam, Netherlands	ABNANL2A	EUR	540427349	abnamro.com
	20 Ing Bank N.V. P.O. Box 1800 1000 BV., Amsterdam, Netherlands.	INGBNL2A	EUR	0050908928	Ingbank.com Ing.com
New Zealand	21 Bank of New Zealand P.O. Box 2392, 1, Willis Street, Wellington, New Zealand	BKNZNZ22	NZD	2659680000	bnz.co.nz
Norway	22 Den Norske Bank Stranden 21, 0021, Oslo, Norway	DNBANOKK	NOK	7002-02-04808	ubn.no dnbnor.com
Pakistan	23 Habib Bank AG Zurich P.O. Box 1424, Hirani Centre, 1.1, Chundrigar Road, Karachi 74200, Pakistan	HBZUPKKA	AC\$	20110-333-31503	habibbank.com
	24 Standard Chartered Bank 1.1, Chundrigar Road, Karachi 75600, Pakistan	SCBLPKK	AC\$	15000297601	standardchartered.com
Saudi Arabia	25 The National Commercial Bank International Banking Division, Banking Relations, 20th Floor, P.O. Box 3555, Jeddah 21481, Saudi Arabia	NCBKSJAJE	US\$	55535150090301	alahli.com
Singapore	26 Standard Chartered Bank P.O. Box 1901, 6, Battery Road, 7th Storey, Singapore 049909	SCBLSGSG	SGD	0109344561	standardchartered.com
Sweden	27 Skandinaviska Enskilda Banken Utlandsreskontran Stockholm S 106 40, Sweden	ESSESESS	SEK	52018529803	sebgroupp.com
Switzerland	28 UBS A.G. P.O. Box CH-8098, Zurich, Switzerland	UBSWCHZH	CHF	02308540805W	ubs.com
United Kingdom	29 Standard Chartered Bank City Office, Branch No. 37, Grace Church Street, London EC3V 0BX, UK	SCBLGB2L	GBP EUR	01804813401 5601804813496	standardchartered.com
United States of America	30 American Express Bank 300, Boulevard East, Weehawken, NJ 07086, U.S.A.	AEIBUS33	US\$	000724989	americanexpress.com
	31 Bank of America NT & SA International Deposit Services, 1850 Gateway BL VD, 6th Floor, Concord CA 94520, U.S.A.	BOFAUS6S	US\$	6290890098	bankofamerica.com
	32 Citi Bank 111, Wall Street, 19th Floor, New York 10043, U.S.A.	CITIUS33	US\$	36141446	citibank.com
	33 Deutsche Bank Trust Company Americas P.O. Box 318, Church Street Station, New York, NY 10008, U.S.A.	BKTRUS33	US\$	04034566	dutsche_bank.com
	34 HSBC Bank U.S.A. 500, Stanton Christiana Road, Newark Delaware 19713, NY - U.S.A.	MRMDUS33	US\$	000045829	asiapacific.hsbc.com
	35 JP Morgan Chase Bank Head Office, 270, Park Avenue, New York, NY 10017, U.S.A.	CHASUS33	US\$	400808625	jpmorgancaccess.com
	36 Standard Chartered Bank One Medison Avenue, New York NY 10010-3603 U.S.A.	SCBLUS33	US\$	3582052360001	standardchartered.com
37 Wachovia Bank N.A. 11, Penn Plaza, 4th Floor, New York, NY 10038,	PNBPUS3NNYC	US\$	2000191002407	wachovia.com wachovia.firstunion.com	

Branch Network

Jaffna District		Negombo CSP*	45
Chunnakam	1	Negombo	46
Jaffna	2	Nittambuwa	47
Nelliady	3	Seeduwa	48
		Wattala	49
		Yakkala	50
Vavuniya District			
Vavuniya	4		
Trincomalee District		Kegalle District	
Trincomalee	5	Kegalle	51
		Mawanella	52
Anuradhapura District		Nuwara Eliya District	
Anuradhapura	6	Hatton	53
Kekirawa	7	Nuwara Eliya	54
Polonnaruwa District		Ampara District	
Hingurakgoda	8	Ampara	55
Kaduruwela	9		
Puttalam District		Moneragala District	
Chilaw	10	Moneragala*	56
Nattandiya	11		
Palavi CSP	12	Colombo District	
Wennappuwa	13	<i>Please refer page 141</i>	
Batticaloa District		Ratnapura District	
Batticaloa	14	Balangoda	110
Kurunegala District		Embilipitiya	111
Kuliyapitiya	15	Ratnapura MiniCom	112
Kurunegala	16	Ratnapura	113
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Kurunegala MiniCom	18	Kalutara District	
Narammala	19	Aluthgama	114
Nikaweratiya	20	Bandaragama	115
		Horana	116
		Kalutara	117
		Matugama	118
		Panadura	119
Matale District		Hambantota District	
Dambulla	21	Ambalantota	120
Galewela	22	Tangalle*	121
Matale	23	Tissamaharama*	122
Kandy District		Galle District	
Anniwatte SP*	24	Ambalangoda	123
Gampola	25	Baddegama	124
Kandy	26	Elpitiya	125
Katugastota	27	Galle City	126
Nawalapitiya	28	Galle Fort	127
Peradeniya	29	Hikkaduwa	128
Piiimalalawa	30		
Badulla District		Matara District	
Badulla	31	Akuressa	129
Bandarawela	32	Deniyaya	130
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Airport Counter	33	Koggala	132
Ekala	34	Matara	133
Gampaha MiniCom	35	Weligama	134
Gampaha	36		
Ja-Ela	37		
Kadawatha	38	OVERSEAS BRANCHES	
Kandana	39	Bangladesh	
Katunayake FTZ	40	Chittagong	135
Kiribathgoda	41	Dhaka	136
Kochchikade	42	Dhanmondi*	137
Minuwangoda	43	Gulshan Booth	138
Mirigama	44	Sonargaon Booth	139

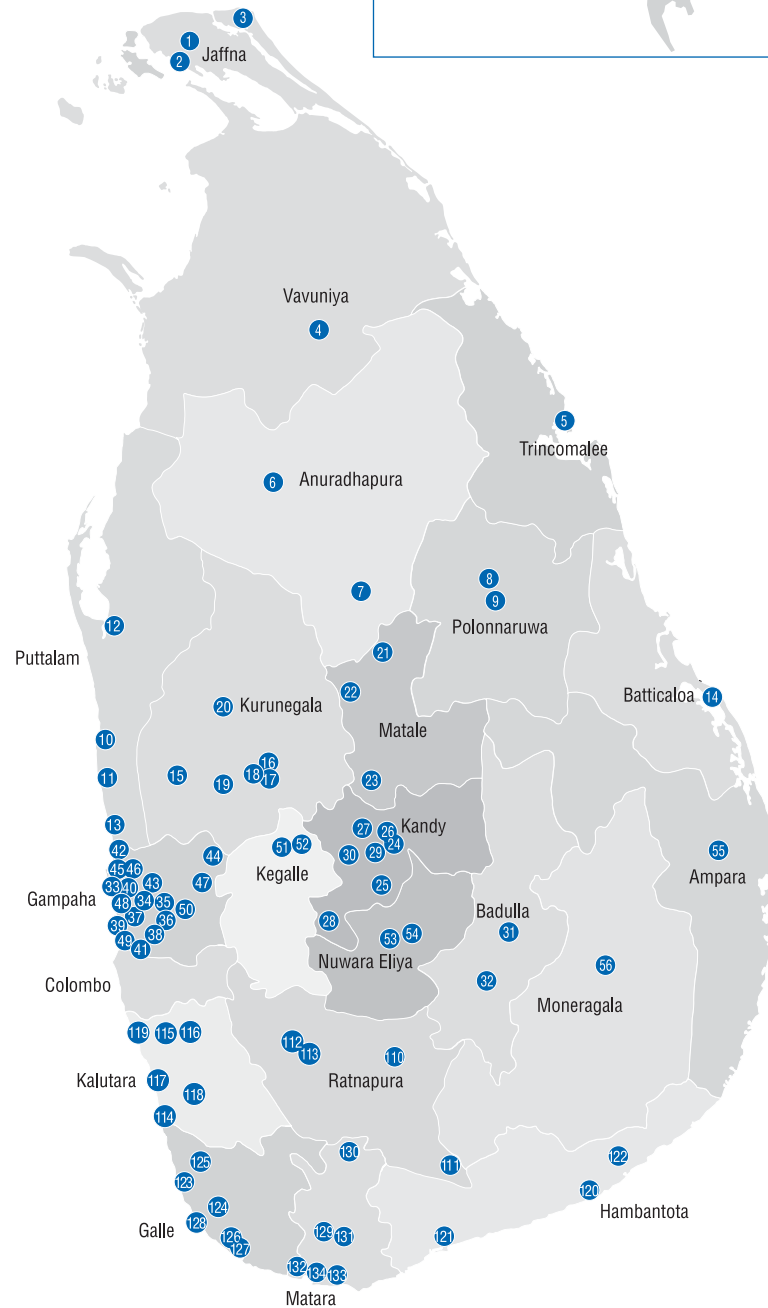
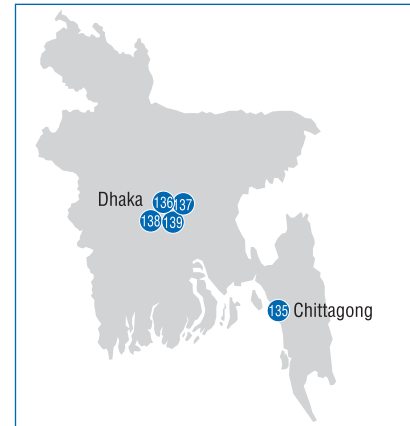
* Opened in 2005

CSP - Customer Service Point

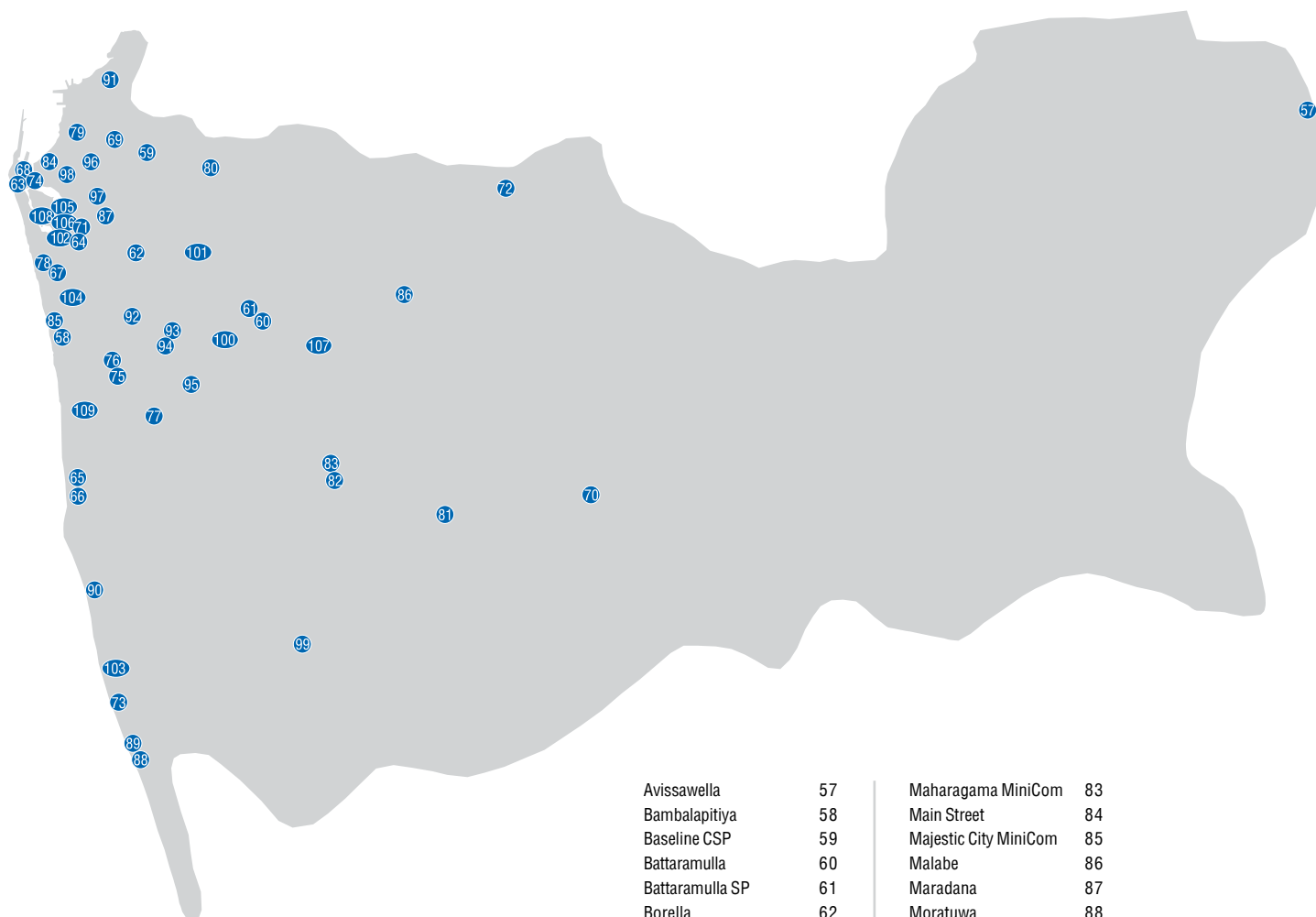
MiniCom - Banking Centres at Cargills Food City Supermarkets

SP - Banking Centres at Arpico Supercentres

BANGLADESH



COLOMBO DISTRICT



Avissawella	57	Maharagama MiniCom	83
Bambalapitiya	58	Main Street	84
Baseline CSP	59	Majestic City MiniCom	85
Battaramulla	60	Malabe	86
Battaramulla SP	61	Maradana	87
Borella	62	Moratuwa	88
City Office	63	Moratuwa MiniCom	89
Colombo 7 (Town Hall)	64	Mt. Lavinia	90
Dehiwala	65	Mutwal	91
Dehiwala SP	66	Narahenpita	92
Duplication Road	67	Nawala	93
Foreign Branch/ Head Office	68	Nawala MiniCom	94
Grandpass	69	Nugegoda	95
Homagama	70	Old Moor Street	96
Hyde Park Corner SP	71	Panchikawatte	97
Kaduwela	72	Pettah	98
Katubedda CSP	73	Piliyandala	99
Keyzer Street	74	Pita Kotte CSP*	100
Kirulapone	75	Rajagiriya	101
Kirulapone MiniCom	76	Ramanayake Mw CSP	102
Kohuwala	77	Ratmalana	103
Kollupitiya	78	Reid Avenue/Priority Banking Centre	104
Kotahena	79	Sri Lanka Insurance Corp. CSP	105
Kotahena Savings Centre		106	
Kotikawatte*	80	Staples Street MiniCom	106
Kottawa*	81	Thalawathugoda	107
Maharagama	82	Union Place	108
		Wellawatte	109

*Opened in 2005
 CSP - Customer Service Point
 MiniCom - Banking Centres at Cargills Food City Supermarkets
 SP - Banking Centres at Arpico Supercentres

Snapshot of the Sri Lankan Economy

As at 16.02.2006

GDP - 2004	Rs.Bn.	US \$ Bn.	External Sector	US \$ Mn.	2005	Change %	
At Current Market Prices	2,029	20.05	Textile & Apparel Exports		2,894.5	3.1	
GDP Growth Rate	%	2005	2004	Tea Exports	810.2	9.7	
03rd Quarter	6.4	5.5	Exports		6,346.7	10.2	
First 09 Months	5.5	5.8	Imports		8,863.2	10.8	
Full Year	5.5 ^e	5.4	Private Remittances - Net		1,748	29.5	
Exchange Rate - Rs./US\$ (End - Year)	102.02	104.45			2005	2004	
Rate of Inflation	%	2006	Y.A.	Balance of Payment (BoP)	502	-223	
CCPI Annual Avg. Change	Jan	11.1	8.8		2005	Change %	
CCPI Point to Point Change	Jan	8.0	14.6		End Dec	From Dec '04	
SLCPI Annual Avg. Change	Dec 05	10.6	7.9	Gross Official Reserves	2,735	24.6	
Interest Rates	%	10.02.06	Y.A.	Change in Money Supply %	Dec 05	M.A.	Y.A.
AWPR	12.11	9.65	M ₂ b (YoY)		19.1	20.6	19.6
SLIBOR - 01 Day	10.28	8.48	Government Finance	Rs. Bn.	2005	2004	05 Budget
Call Money Rate (Weekly Average)	10.01	8.12	Govt. Revenue (Jan - Nov)		334.9	281.2	389.5
Treasury Bills - 03 months	10.11	7.34	Govt. Expenditure (Jan - Nov)		503.5	419.7	560.6
Treasury Bills - 12 months	10.37	7.65	Budget Deficit as % of GDP		8.5	8.2	7.6
Treasury Bonds - 02-year	10.69	8.25	Government Debt	Rs. Bn.	2005	2004	Share (%)
Treasury Bonds - 03-year	11.15	8.60			End Nov	End Nov	2005
	Jan 2006	Y.A.	Domestic Debt		1,257.0	1,139.4	57.6
AWDR	6.34	5.35	Foreign Debt		926.8	960.4	42.4
AWFDR	9.18	7.73	Total Debt		2,183.8	2,099.8	100.0
	10.02.06	Y.A.	Total Debt as % of GDP (2004)		N/A	105.5	
Repo	8.75	7.50	Share Market	As at 16 Feb.	2006	2005	
Reverse Repo	10.25	9.00	All Share Price Index (ASPI)		2,175	1,705	
Tourism	2005	Change %	Milanka Price Index (MPI)		2,749	2,340	
Tourist Arrivals ('000)	549.3	-3.0	Avg. Daily Turnover (Rs. Mn.)		382	333	
Earnings from Tourism (US \$ Mn.)	327.6	-20.7	Market Capitalization (Rs. Bn.)		660.8	436.0	

e - Estimate M.A. - Month Ago Y.A. - Year Ago N/A - Not Available/Applicable

- AWPR - Average Weighted Prime Lending Rate of Commercial Banks
- SLIBOR - Sri Lanka Inter Bank Offer Rate
- AWDR - Average Weighted Deposit Rate of Commercial Banks
- AWFDR - Average Weighted Fixed Deposit Rate of Commercial Banks
- Repo - Central Bank Overnight Repurchase Rate
- Reverse Repo - Central Bank Overnight Reverse Repurchase Rate

Source: Central Bank of Sri Lanka

Acceptances

Promise to pay created when the drawee of a time draft stamps or writes the words "accepted" above his signature and a designated payment date.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Associate Company

A company other than a subsidiary in which a holding company has a participating interest and exercises a significant influence over its operating and financial policies.

Bills for Collection

A bill of exchange drawn by an exporter usually at a term, on an importer overseas and brought by the exporter to his bank with a request to collect the proceeds.

Bonus Issue (Scrip Issue)

The issue of new shares to existing shareholders in proportion to their shareholdings. It is a process for converting a company's reserves (in whole or part) into issued capital and hence does not involve an infusion of cash.

Capital Adequacy Ratios

The relationship between capital and risk weighted assets as defined in the framework developed by the Bank for International Settlements and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash Equivalents

Short term highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Commitments

Credit facilities approved but not yet utilised by the clients as at the Balance Sheet date.

Compounded Annual Growth Rate

The rate at which it would have grown if it grew at an even rate compounded annually.

Contingencies

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost/Income Ratio

Operating expenses excluding Loan Loss Provision as a percentage of income.

Cost Method

A method of accounting whereby the investment is recorded at cost. The Income Statement reflects income from the investment only to the extent that the investor receives distributions from accumulated net profits of the investee arising subsequent to the date of acquisition.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Dealing Securities

Marketable securities that are acquired and held with the intention of reselling them in the short-term.

Deferred Taxation

Sum set aside for tax in the Financial Statements that may become payable in a financial year other than the current financial year.

Dividend Cover

Profit after tax divided by gross dividends. This ratio measures the number of times dividend is covered by current year's distributable profits.

Documentary Credits

Commercial letters of credit provided for payment by a bank to the named beneficiary usually the seller of merchandise, against delivery of documents specified in the credit.

Earnings per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic Value Added

A measure of productivity which takes into consideration cost of total invested equity.

Effective Tax Rate

Provision for taxation excluding deferred tax divided by the profit before taxation.

Equity Method

A method of accounting whereby the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the investor's share of net assets of the investee. The Income Statement reflects the investor's share of the results of operations of the investee.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Foreign Exchange Profit

Profit earned on foreign currency transactions arising from the difference in foreign exchange rates between the transaction/last Balance Sheet date and the settlement/Balance Sheet date. Also arises from trading in foreign currencies.

Foreclosed Properties

Properties acquired in full or partial satisfaction of debts.

Forward Exchange Contract

Agreement between two parties to exchange one currency for another at a future date at a rate agreed upon today.

Free Capital

Excess of equity capital over net book value of Property, Plant & Equipment, intangible assets and Investments.

Gross Dividends

The portion of profits distributed to the shareholders including the tax withheld.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owning a debt if that person fails to perform.

Historical Cost Convention

Recording transactions at the actual value received or paid.

Human Resource Accounting

The Human Resource is considered as an asset (although not brought into the Balance Sheet) and the value is computed to focus attention on the management of this valuable asset.

Interest in Suspense

Interest suspended on non-performing loans and advances.

Interest Margin

Net interest income expressed as a percentage of interest earning assets.

Glossary of Financial & Banking Terms

Investment Securities

Securities acquired and held for yield or capital growth purposes and are usually held to maturity.

Interest Spread

Represents the difference between the average interest rate earned and the average interest rate paid on interest earning assets and interest bearing liabilities, respectively.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with other banks, bills of exchange, treasury bills.

Loan Losses and Provisions

Amounts set aside against possible losses on loans, advances and other credit facilities as a result of such facilities becoming partly or wholly uncollectible.

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at the year end.

Materiality

The relative significance of a transaction or an event the omission or misstatement of which could influence the economic decisions of users of financial statements.

Net Assets Value per Ordinary Share

Shareholders' funds excluding Preference Shares if any, divided by the number of ordinary shares in issue.

Net Interest Income

The difference between what a bank earns on assets such as loans and securities and what it pays on liabilities such as deposits, refinance funds and inter-bank borrowings.

Non-Performing Loans

A loan placed on cash basis (i.e. Interest income is only recognised when cash is received) because, in the opinion of management, there is reasonable doubt regarding the collectibility of principal or interest. Loans are automatically placed on cash basis when a payment is 3 months past due. All loans are classified as non-performing when a payment is 3 months in arrears.

Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet but which give rise to contingencies and commitments.

Open Credit Exposure Ratio

Total net non-performing loans expressed as a percentage of regulatory capital base.

Price Earnings Ratio (P/E Ratio)

Market price of a share divided by earnings per share.

Provision Cover

Total provisions on non-performing loans expressed as a percentage of net non-performing loans before discounting for provisions on non-performing loans.

Prudence

Inclusion of a degree of caution in the exercise of judgement needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

Return on Average Assets (ROA)

Profit after tax divided by the average assets.

Risk Weighted Assets

On Balance Sheet assets and the credit equivalent of off Balance Sheet assets multiplied by the relevant risk weighting factors.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or dealer and resale back to the seller at a future date and specified price.

Return on Average Equity (ROE)

Net profit for the year, less preference share dividends if any, expressed as a percentage of average ordinary shareholders' equity.

Revenue Reserves

Reserves set aside for future distribution and investment.

Segmental Analysis

Analysis of financial information by segments of an enterprise specifically, the different industries and the different geographical areas in which it operates.

Shareholders' Funds

Total of issued and fully paid share capital and capital and revenue reserves.

Single Borrower Limit

30% of the shareholders' funds (excluding final dividend payable).

Statutory Reserve Fund

A capital reserve created as per the provisions of the Banking Act No. 30 of 1988.

Substance Over Form

The consideration that the accounting treatment and the presenting in financial statements of transactions and the events should be governed by their substance and financial reality and not merely by legal form.

Subsidiary Company

A company is a subsidiary of another company if the parent company holds more than 50% of the nominal value of its equity capital or holds some shares in it and controls the composition of its Board of Directors.

Tier I Capital

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Supplementary capital representing revaluation reserves, general provisions and other capital instruments which combine certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Triple Bottom Line Reporting

Reporting on the efforts of a corporate to enhance Shareholder value while being ethical and accountable to the society and environment.

Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

Value Added

Value of wealth created by providing banking and other related services less the cost of providing such services.

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Notice of Meeting

Notice is hereby given that the **Thirty-Seventh Annual General Meeting** of Commercial Bank of Ceylon Limited will be held at the 9th Floor of the Union Place Branch of the Bank, No. 1, Union Place, Colombo 2 on Thursday, March 30, 2006 at 3.30 p.m. for the following purposes:

1. To receive, consider and adopt the Report of the Directors and the Financial Statements for the year ended December 31, 2005 with the Report of the Auditors thereon.
2. To declare a dividend as recommended by the Directors.
3. To re-elect Directors in place of those retiring by rotation or otherwise (*).
4. To appoint Auditors to the Company for the ensuing year and authorise the Board of Directors to determine their remuneration.
5. To authorise the Board of Directors to determine donations for 2006.

By Order of the Board,



Mrs. R.R. Dunuwille
Company Secretary

February 14, 2006
Colombo

Notes

1. A member entitled to attend/vote at the Meeting is entitled to appoint a Proxy to attend/vote in his/her stead and a Proxy Holder need not be a member of the Company.
2. A Form of Proxy is sent along with this Report. The completed Form of Proxy should be deposited at the Registered Office of the Company, "Commercial House", No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time appointed for the holding of the Meeting.
3. It is proposed to post the Dividend Warrants on March 30, 2006, upon approval by the shareholders at the Annual General Meeting.

(*) SPECIAL NOTICE

A special notice has been received by the Company from Union Investments Ltd., a Shareholder of the Bank informing their intention to move the following resolution:

Re-Election of Mr. J. S. Mather

We, Union Investments Ltd., a shareholder of the Company hereby give Special Notice of our intention to move the following resolution, as an ordinary resolution, at the forthcoming Annual General Meeting of the Company.

"That the age limit stipulated in Section 181 of the Companies Act No. 17 of 1982 shall not be applicable to Mr. James Selvanathan Mather, who attained the age of 75 years on September 1, 2005 and that he be re-elected a Director of the Company."

Form of Proxy (Voting Shareholders)

I/We
of
being a member/s of Commercial Bank of Ceylon Ltd. hereby appoint
of whom failing:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. James Selvanathan Mather	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Anthony Nihal Fonseka	whom failing
Mr. Lalin Joseph Ainsley Fernando	whom failing
Mr. Sanjiva Senanayake	whom failing
Mr. Dinesh Stphen Weerakkody	

as my/our Proxy Holder to represent me/us and*
to vote for me/us on my/our behalf as indicated below at the Thirty-Seventh Annual General Meeting of the Company to be held on March 30, 2006 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	For	Against
1. To receive, consider and adopt the Report of the Directors and the Financial Statements for the year ended December 31, 2005 with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a Dividend as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Directors in place of those retiring by rotation.	<input type="checkbox"/>	<input type="checkbox"/>
(a) Mr. J.S. Mather	<input type="checkbox"/>	<input type="checkbox"/>
(b) Mr. L.J.A. Fernando	<input type="checkbox"/>	<input type="checkbox"/>
4. To appoint Auditors to the Company for the ensuing year and authorise the Board of Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorise the Board of Directors to determine donations for 2006.	<input type="checkbox"/>	<input type="checkbox"/>

In witness my/our hand/seal given on this day of March, Two Thousand and Six.

.....
Signature/s

(Please indicate with an 'X')

* If you wish your Proxy Holder to speak at the meeting you should insert the words "to speak and" in the space indicated with the asterisk and initial such insertion.

- Notes**
- i. Instructions as to completion of this Form of Proxy are given overleaf.
 - ii. As regards voting on the above Resolutions if no words are struck out or there is in the view of the Proxy Holder doubt (by reason of the way in which the instructions in the Form of Proxy have been stated by the shareholder) as to the way in which the Proxy Holder should vote, the Proxy Holder will vote as he thinks fit.
 - iii. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration, if such POA has not already been registered with the Company.
 - iv. If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal in accordance with its Articles of Association/Statute.

Form of Proxy (Voting Shareholders)

Instructions as to Completion of Form of Proxy

(i) Article 67 of the Articles of Association of the Company provides that:

“ The instruments appointing a Proxy shall be in writing, and

(a) in the case of an individual shall be signed by the Appointor or by his Attorney; and

(b) in the case of a corporation shall be signed either under its common seal or shall be signed by its Attorney or by an Officer on behalf of the corporation.

The Company may, but shall not be bound to, require evidence of the Authority of any such Attorney or Officer. A Proxy Holder need not be a member of the Company.”

(ii) The full name(s) and address(es) of the Proxy Holder and of the Shareholder appointing the Proxy Holder should be entered legibly in the Form of Proxy.

(iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.

The Articles relating to the quorum required at the general meetings of the Company are produced below, for the information of the shareholders:

Proceedings at General Meetings

52. No business shall be transacted at any general meeting unless a quorum is present when the meeting proceeds to business. Three members present in person or by proxy or attorney, or in the case of a corporation by a representative duly authorised as provided by Article 72, holding in the aggregate not less than 50% of the issued capital of the Company for the time being shall be a quorum for all purposes.

53. If within 15 minutes from the time appointed for the meeting a quorum is not present, the meeting, if convened on the requisition of members shall be dissolved. In any other case it shall stand adjourned to the same day in the next week, at the same time and place, or to such other day and at such other time and place as the Chairman of the meeting may determine, and if at such adjourned meeting a quorum is not present within fifteen minutes from the time appointed for holding the meeting, the members present (if more than one) shall be a quorum provided they hold in the aggregate not less than 30% of the issued capital of the Company for the time being.

Form of Proxy (Non-Voting Shareholders)

I/We
of
being a member/s of Commercial Bank of Ceylon Ltd. hereby appoint
of whom failing:

Mr. Mahendra Jayanthipal Chandima Amarasuriya	whom failing
Mr. James Selvanathan Mather	whom failing
Mr. Amitha Lal Gooneratne	whom failing
Dr. Henry Shelton Wanasinghe	whom failing
Mr. Bentotage Robert Lakshman Fernando	whom failing
Mr. Anthony Nihal Fonseka	whom failing
Mr. Lalin Joseph Ainsley Fernando	whom failing
Mr. Sanjiva Senanayake	whom failing
Mr. Dinesh Stphen Weerakkody	

as my/our Proxy Holder to represent me/us and* at
at the Thirty-Seventh Annual General Meeting of the Company to be held on March 30, 2006 and at any adjournment thereof.

In witness my/our hand/seal given on this day of March, Two Thousand and Six.

.....
Signature/s

* If you wish your Proxy Holder to speak at the meeting you should insert the words "to speak" in the space indicated with the asterisk and initial such insertion.

- Notes**
- i. Instructions as to completion of this Form of Proxy are given overleaf.*
 - ii. Shareholders of non-voting shares are entitled only to attend and speak at the meeting.*
 - iii. If the Form of Proxy is signed by an Attorney, the relative Power of Attorney (POA) should accompany the completed Form of Proxy for registration, if such POA has not already been registered with the Company.*
 - iv. If the shareholder is a company or a corporate body, the Form of Proxy should be executed under its common seal in accordance with its Articles of Association/Statute.*

Form of Proxy (Non-Voting Shareholders)

Instructions as to Completion of Form of Proxy

(i) Article 67 of the Articles of Association of the Company provides that:

“ The instruments appointing a Proxy shall be in writing, and

(a) in the case of an individual shall be signed by the Appointor or by his Attorney; and

(b) in the case of a corporation shall be signed either under its common seal or shall be signed by its Attorney or by an Officer on behalf of the corporation.

The Company may, but shall not be bound to, require evidence of the authority of any such Attorney or Officer. A Proxy Holder need not be a member of the Company.”

(ii) The full name(s) and address(es) of the Proxy Holder and of the Shareholder appointing the Proxy Holder should be entered legibly in the Form of Proxy.

(iii) The completed Form of Proxy should be deposited with the Company Secretary at the Registered Office of the Company, No. 21, Bristol Street, Colombo 1, not less than 48 hours before the time fixed for the holding of the meeting.

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Corporate Information

Name of Company

Commercial Bank of Ceylon Ltd.

Legal Form

A public limited liability company incorporated in Sri Lanka on June 25, 1969 under the Companies Ordinance No. 51 of 1938 and quoted in the Colombo Stock Exchange in March 1970. A licensed commercial bank under the Banking Act No. 30 of 1988.

Company Registration Number

PBS 600

Tax Payer Identification Number (TIN)

124006007

Stock Exchange Listing

The Ordinary Shares, the 13% and 11.25% Cumulative Redeemable Preference Shares and the Unsecured Subordinated Redeemable Debentures 2003/2008 of the Company are listed on the Colombo Stock Exchange.

Registered Office

"Commercial House",
No. 21, Bristol Street, P.O. Box 856,
Colombo 1, Sri Lanka.

Telephone : 2445010-15 (6 lines), 2328193-5 (3 lines)

2430420, 2336700

Telegraphic Address : COMBANK

Telex : 21520 COMEX CE; 21274 COMBANK CE;

21898 COMFEX CE; 22384 COMFX CE;

23375 COMTLX CE.

Facsimile : 941-2449889

SWIFT Code - Sri Lanka : CCEYLKXX

SWIFT Code - Bangladesh : CCEYBDDH

E-mail : email@combank.net

Website : www.combank.net

Head Office

"Commercial House", No. 21, Bristol Street,
P.O. Box 856, Colombo 1, Sri Lanka.

For any clarifications on this Report please write to

**The Company Secretary,
Commercial Bank of Ceylon Ltd.,
"Commercial House",
No. 21, Bristol Street,
Colombo 1, Sri Lanka.**

or e-mail to email@combank.net

Minimise waste by informing the Commercial Bank Company Secretary to update the mailing list if you are receiving more than one copy of the Annual Report.

Board of Directors

Mr. M.J.C. Amarasuriya (*Chairman*)

Mr. J.S. Mather (*Deputy Chairman*)

Mr. A.L. Gooneratne

Dr. H.S. Wanasinghe

Mr. B.R.L. Fernando

Mr. A.N. Fonseka

Mr. L.J.A. Fernando

Mr. Iyad M. Malas

Mr. S.K.G. Senanayake (*Alternate Director*)

Mr. D.S. Weerakkody

Company Secretary

Mrs. R.R. Dunuwille

Audit Committee

Mr. J.S. Mather (*Chairman*)

Dr. H.S. Wanasinghe

Mr. B.R.L. Fernando

Mr. A.N. Fonseka

Compliance Officer

Mr. Delip Fernando - Assistant General Manager (Inspection)

Auditors

KPMG Ford, Rhodes, Thornton & Company,
Chartered Accountants,
No. 32A, Sir Mohamed Macan Markar Mawatha,
P.O. Box 186,
Colombo 3, Sri Lanka.

Lawyers

Julius & Creasy,
No. 41, Janadhipathi Mawatha,
Colombo 1, Sri Lanka.

Credit Rating

The Bank has received AA+(sri) credit rating from Fitch Ratings Lanka Ltd.

The Bank's Bangladesh Operations received AA credit rating from Credit Rating Information Services Ltd.

Subsidiary Companies

Name of the Company	Holding	Principal Activity
Commercial Bank Primary Dealer Ltd.	100.00%	Primary Dealer for Government Securities
ONEzero Company Ltd.	100.00%	Provision of IT related Services
X-pertise Ltd.	100.00%	Training and Development of Human Resource
Commercial Development Company Ltd.	94.55%	Property Development

Associate Companies

Name of the Company	Holding	Principal Activity
Commercial Fund Management (Pvt.) Ltd.	50.00%	Fund Management
Commercial Leasing Company Ltd.	30.00%	Leasing, Factoring, Hire Purchase and Hiring of Vehicles
Equity Investments Lanka Ltd.	22.92%	Venture Capital



“Bank of the Year”
for 05 consecutive years
awarded by
The Banker Magazine

“Best Bank in the Country”
for 07 consecutive years
awarded by
The Global Finance Magazine